THE INTERNATIONALIZATION OF NIGERIAN BANKS:

INFLUENCES

AND

ENTRY MODE CHOICES

BY

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ABSTRACT

This research studies the internationalisation of Nigerian banks between the period 2005-2012 by examining factors that influence the decision of the banks to enter foreign markets and their choice of entry mode.

The study was underlined by a positivist philosophy that tended towards realism and adopted a mixed qualitative and quantitative approach. Multiple case studies were used and five Nigerian banks were purposively sampled. Primary data was collected using Likert scale questionnaires and interviews, while secondary data was obtained from multiple sources.

Primary data was analysed using the normal distribution fitting algorithm approach. Findings from the primary and secondary evidence were compared with propositions developed from the theories in the literature.

The research found that foreign market entry was triggered by the success of banking sector reforms in Nigeria, a shift in the strategic scope of the banks and a desire to exploit tangible and intangible assets in less developed, but profitable banking markets in SSA.

It was also found that environmental uncertainties in host countries influenced entry through high equity commitment entry modes.

This study offers an idiosyncratic contribution to the study of bank internationalization and may be useful to the business community, policy makers and academics.

DEDICATION

This thesis is dedicated to my lovely wife, Dr. (Mrs.) Ifeoma Ojoko-Amungo who not only urged me on this academic journey, but has also been my biggest cheerleader for the past three years.

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ABBREVIATIONS

ATM	Automatic Teller Machine
AU	African Union
CBN	Central Bank of Nigeria
DoI	Degree of Internationalization
ECOWAS	Economic Community of West African States
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
I-advantage	Internalization Advantage
JV	Joint Venture
L-advantage	Location Advantage
M&A	Mergers and Acquisition
MNB	Multi-national Bank
MNC	Multi-national Company
NEPAD	New Partnership for African Development
NDFA	Normal distribution fitting algorithm
O-advantage	Ownership Advantage
RBV	Resource Based View
ROA	Return on Assets
ROE	Return on Equity
SSA	Sub-Saharan Africa
TCA	Transaction Cost Analysis
UNCTAD	United Nations Conference on Trade and Development
WAEMU	West African Economic and Monetary Union
WDI	World Development Indicators
WOS	Wholly-Owned Subsidiary

CHAPTER 1

INTRODUCTION

This chapter introduces the research and explains its purpose and significance. The research question, aims and objective are stated and the gap in the literature that the research seeks to address is outlined. The theories which the research hopes to develop are outlined and the philosophical paradigm, research approach and research design are presented.

1.1. Brief history of foreign market entries by Nigerian banks

On May 31, 2011, the Central Bank of Nigeria (CBN) announced the categorisation of Nigerian banks according to the scope of their operations. Nine banks were issued licences to operate as international banks, six as national banks and two as regional banks after meeting some capital reserves requirements (Vanguard Newspapers, June 1, 2011; CBN, 2010).

But prior to that categorisation, a number of Nigerian banks had operations and subsidiaries within the Economic Community of West Africa (ECOWAS) and other regions of sub-Saharan Africa (SSA) as well as some international financial centres, including London, New York and Paris.

The CBN had earlier forced the consolidation of the Nigerian banking industry when it introduced a 13 point reform agenda, which included an order to all banks operating in the country to recapitalise their minimum shareholders funds to 25 billion naira from 2 billion naira –a 1250 percent increase. The recapitalization program ended on 31 December, 2005 (Hesse, 2007).

As a result of that consolidation policy the number of banks reduced from 89 to 25 as some banks successfully raised funds from the capital market while others met the requirements through merger and acquisition (Hesse, 2007). The then CBN governor, Charles Soludo, asserted that the reforms were expected to build and foster a competitive and healthy financial system to support development and avoid systemic distress (Soludo, 2007).

Cuffe (2008, p14) noted that since 2004,

> "…the Nigerian banking industry has been transformed by the CBN's recapitalisation program."

Cuffe (2008, p15) noted further that,

> "…the recapitalisation and consolidation process aided the competitive position of Nigeria's largest banks."

Meanwhile, the CBN had on December 12, 2000 announced the Universal Banking Guidelines that allowed Nigerian banks to engage in universal banking (CBN, 2000). Following the consolidation of 2005, Nigerian banks, with their increased tier 1 capital, sought other avenues for investment and growth by diversifying into different businesses including insurance, property development, and asset management, pension funds administration, among others. The banks after recapitalizing, improved their domestic competitive positions, started new business units and sought new markets abroad. The CBN reversed the universal banking policy in September 2011.

Cuffe (2008) observed that Nigeria's largest banks developed strategies for growth that included regional expansion, among others. Since then the number of Nigerian banks that embarked on international expansion increased dramatically with the largest banks opening up subsidiaries across west, central, eastern and southern African countries as well as some global trade and financial centres.

Leading the charge in international expansion were United Bank for Africa (with subsidiaries in eighteen countries), Access Bank (ten), Guaranty Trust Bank (five), Zenith Bank (five). Collectively, Nigerian banks now operate in 25 African countries as well as having presence in England, China, France, and America.

Even the World Bank has noted the role of Nigerian banks in SSA by pointing out that they, along with South African banks, own thirty per cent of foreign banking assets in SSA countries (World Bank, 2008). And despite the financial crisis of 2008 and increasing stringent home country regulations, Nigerian banks seem undeterred in their foreign market entries with new announcements made regularly by bank boards and management.

International market entries by Nigerian banks

The international expansion of Nigerian banks can be divided into three time periods.

i. A post-independence and nationalist period (1970-1993)

ii. A pre- consolidation period (1993- 2004)

iii. A post-consolidation period (2005 to present)

i) Post-independence and nationalization of foreign owned banks (1970-1993)

After independence in 1960 the Nigerian banking market was dominated by foreign owned banks. In the early 1970s foreign banks were forced to dilute their shareholding to include Nigerian shareholders. In 1972 the Nigerian government acquired majority holding in most foreign banks. In 1979 new banking laws made many of the foreign banks to divest some of their Nigerian operations and many of the banks changed their names to reflect their new Nigerian ownership (Brownbridge, 1998).

In 1993 the Nigerian government sold its stake in these banks and they became fully privately owned. These banks included Barclays (Union Bank), Standard Chartered (First Bank), Banque Internationale Pour L'Afrique Occidental (BIAO) which became Afribank and British French Bank which is now United Bank for Africa (UBA). These were the four largest banks in Nigeria in the 1990s when they controlled more than fifty percent of banking assets in the country (Brownbridge, 1998).

In their bid to service the trade and foreign exchange needs of the Nigerian government and businesses these banks established representative offices and branches in global financial centres.

First Bank opened a branch in the UK in 1982 that it upgraded to a subsidiary in 2002. UBA opened an office in the UK as well as a branch in New York in 1984. (First Bank annual report, 2011; UBA annual report, 2011)

ii) Pre-consolidation (1993-2005)

The Nigerian banking market was deregulated in 1986 and many new banks entered the market (Brownbridge, 1998). 144 banks were operating in Nigeria in 1999. Through various cycles of growth and financial crisis the CBN tried to reform the banking sector and in 2000 issued universal licences to banks while also requesting increased capital for the banks. Universal licences increased the scope of activities that the banks could participate in. But most crucially, regulatory barriers to international expansion were reduced. Additionally, the capital requirements of the banks were increased from ₦500million-₦2billion in 2000, thus the banks had increased tier 1 capital (CBN, 2000; Barros and Caporale, 2012; Hesse, 2007).

Diamond Bank became the first Nigerian bank to establish a retail subsidiary in SSA when it entered Benin republic in 2001. This was followed by Guarantee Trust Bank (GTBank), which acquired 90% of a Sierra Leonean bank (First Merchant Bank of Sierra Leone). Another subsidiary of GTB was established in Gambia in 2002. UBA established its first subsidiary in SSA in Ghana in 2004.

iii) Post-consolidation (2005- present)

Following the policy-induced consolidation in the Nigerian banking industry Nigerian banks increased their tier 1 capital assets, and their number of shareholders as banks raised funds from the capital market (Hesse, 2007). Shareholder value became an imperative for the banks and new strategies were fashioned for growth to increase revenue and profitability. These strategies included the development of new products, investments in technology, process and distribution channels to increase market share, diversification into financial and non-financial activities, and finally new market development through international expansion (Cuffe, 2008).

International market entry into SSA countries started with Benin republic, Sierra Leone, Gambia and Ghana and by 2009 the number of Nigerian banks with international operation had reached 11 within 18 countries with 44 subsidiaries (Table 1.1).

Table 1.1 The international market entries of Nigerian banks by December, 2012

	Nigerian banks	International market entry		
		2005	2008	2012
1	Access Bank		Gambia(2007) Sierra Leone(2007) Côte d'Ivoire (2008) Senegal(2008) Rwanda(2008) Burundi(2008)	Gambia, Sierra Leone, Côte d'Ivoire Senegal, Rwanda, Burundi(2009), Ghana(2009), Gambia, Zambia, Congo DR
2	Keystone Bank[1]		Uganda(orient bank), Sierra Leone, Gambia	Bank acquired by AMCON
3	Diamond Bank[a]		Benin(2008),	Benin, Senegal(2010), Côte d'Ivoire(2010), Togo(2010)
4	FCMB			UK(2009)
	First Bank	UK(1982,branch,2002 subsidiary)South Africa (2004)	South Africa(2004), China,	UK. South Africa, (RO) China(RO),UAE(RO), Congo DR(2011)
6	GTBank	Sierra Leone(2002), Gambia(2002) Ghana (2006)	Sierra Leone(2002), Gambia(2002) Ghana (2004)UK(2007), Netherlands	Sierra Leone(2002), Gambia(2002) Ghana (2004) UK, Netherlands, Liberia(2009), Côte d'Ivoire(2012)
7	Intercontinental bank[2]	Ghana	Ghana, UK	Acquired by Access Bank
8	Keystone		Sierra Leone(2008) Gambia(2008)	Sierra Leone(2008) Gambia(2008)Liberia(2009)Uganda(2010)
9	Skye Bank		Sierra Leone(2008) Gambia(2009)	Sierra Leone, Gambia, Guinea (2010)
10	UBA	UK(1984) USA(1984) Ghana(2004),	Ghana, UK, Cameroon(2007), , Liberia(2008), Sierra Leone(2008), Uganda(2008), Burkina Faso(2008), Benin(2008)	Ghana, UK, Cameroon, Côte d'Ivoire(2009), Liberia, sierra Leone, Uganda, Burkina Faso, Benin ,France(2009) Tanzania(2010), Congo DR(2011)Gabon, Guinea(2010), Chad(2009), Senegal(2009), Kenya(2009), Mozambique(2010)Burundi (2010), Kenya(2009), Zambia(2010) France(2009)
11	Oceanic Bank[3]	Cameroon	Cameroon, Ghana, Soa Tome and Princepe	Acquired by Ecobank International
12	Zenith Bank	Ghana(2005)	Ghana, Sierra Leone(2008), UK(2007) 3	Ghana, Sierra Leone, , UK, Gambia(2010) South Africa(RO)

Source: Bank annual reports (2006-2013). (a) Diamond bank Du Benin owns 100% of Diamond bank Togo, Senegal and Côte d'Ivoire

In 2007 Zenith Bank became the first Nigerian bank to be issued a licence to establish a subsidiary in the UK after 27 years. Since then more Nigerian banks have established subsidiaries in the UK and some other European countries.

Table 1.2 Countries entered by Nigerian banks by December, 2012

	Country	Year of first entry	Nigerian banks		Country	Year of first entry	Nigerian banks
1	Benin	2008	Diamond Bank, UBA, Union Bank	15	Kenya	2009	UBA,
2	Burkina Faso	2008	UBA	16	Liberia	2008	GTB, UBA
3	Burundi	2008	Access Bank, UBA	17	Mali		UBA
4	Cameroon	2007	UBA	18	Mozambique	2010	UBA
5	Chad		UBA	19	Rwanda	2008	Access
6	China		First Bank (RO)	20	Senegal		Diamond, UBA, Skye
7	Congo Brazzaville	2008	UBA,	21	Sierra Leone	2002	Access, GTB, Zenith, Skye Bank, UBA
8	Congo DRC	2008	Access, First Bank, UBA	22	South Africa		First Bank, Union, Zenith
9	Côte d'Ivoire	2008	Diamond Bank, UBA, GTB,	23	Tanzania	2010	UBA,
10	France		UBA(RO)	24	Togo		Diamond Bank, UBA
11	Gabon	2009	UBA	25	Uganda		UBA, Keystone
12	Gambia	2002	Access, GTB, Zenith, Keystone, Skye Bank	26	UK	1982	FCMB, GTB, Zenith, First Bank, UBA, Diamond
13	Ghana	2004	Access, UBA, GTB, Zenith,	27	USA	1994	UBA(Br)
14	Guinea		UBA, Skye Bank	28	Zambia	2008	Access Bank, UBA

Source: Bank annual reports (2006-2013).

Following the global financial crisis in 2008, the CBN conducted a stress test on Nigerian banks and this showed a number of banks to be weak in liquidity and assets. The CBN revoked the universal banking licences of the banks and directed that those banks that sought to operate other financial and non-financial subsidiaries should do so under a holding company structure. The CBN then categorised Nigerian banks according to the scope of their operations and assumed the management of four banks. Additionally, some of the weak banks were put up for sale and Oceanic Bank was acquired by Ecobank Trans International and Intercontinental Bank was acquired by Access Bank.

A period of asset cleaning and banking sector stabilization meant the pace of international expansion reduced between the years 2009-2011. However international expansion has increased again with some banks announcing new market entries in 2013.

Increasingly Nigerian banks are making Africa the centrepiece of their strategy. This reflected in the corporate vision of a number of banks which include;

a) First Bank- “To become SSA’s leading financial services group”
b) Access Bank- “To be the most respected bank in Africa”
c) GTBank- “To be one of top three banks in Africa by 2016”
d) Diamond Bank- “A strong financial services institution with effective presence in Nigeria, Africa and indeed all key financial centres of the world”

1.2 Theories of internationalization

According to Hill, (2008) international expansion obliges firms to make three strategic decisions- which target markets to enter, when to enter, and how to enter those selected markets.

Internationalization by firms has been defined as the process of increasing involvement in international markets (Welch and Loustarinen, 1988). Firms internationalize for a variety of motives.

Czinkota (2004) noted that there are a number of proactive and reactive motivations for firms to internationalize. Proactive motives come about when the firms possesses profit advantage, unique products, technological advantage, exclusive information, managerial urge, tax benefit and economies of scale, while reactive motivations are forced on the firm due to competitive pressures in the domestic market, overproduction, declining domestic sales, excess capacity, saturated domestic markets and proximity to customers or following clients.

Essentially, firms can be said to expand internationally to;

1. exploit market opportunities
2. achieve economies of scale and geographic scope
3. exploit their core competences and resources in new markets
4. source lower cost of supplies, labour and other inputs in their value chain
5. diversify risk

Scholars have, in seeking a better understanding of the determinants and entry mode strategies adopted by multinational companies (MNC) in the internationalization process, formulated a number of theories to explain the process. Among these theories are those based on the economic man and another set based on the behavioural man.

The economic perspective of the internationalization process views economic man as rational, profit seeking and taking decisions that optimise utility and profits. A firm’s decision to invest abroad is looked at from the perspective of cost and benefit and most scholars point out that MNCs seek to exploit market imperfection and failures in the host country.

Theories that explain internationalization from the economic perspective include the resource based view (RBV) (Barney, 1991), the transaction cost analysis (TCA) (Williamson 1975, 1985) and the foreign direct investment (FDI) theories which include the eclectic theory (Dunning, 1980), internalization theory (Buckley and Carson, 1976), and the product life cycle theory (Vernon, 1966).

The process perspective of internationalization has its base in organizational theory. It replaces economic man with a behavioural man. The theories and models following the behavioural approach treat individual learning and top managers as important in understanding a firm’s international behaviour and is built on bounded rationality (Anderson, 1993; Anderson, 2000; Hermannsdottir, 2008).

The focus of the behavioural approach is on the impact of international experience on the pace and direction of subsequent internationalization (Johanson and Vahlne, 1977; Anderson 1993). Theories of the process perspective include the internationalization process theory and stage theory (Cavusgil, 1980; Johanson and Vahlne, 1977)

The entry mode strategies adopted by MNCs have also been the subject of various studies. MNCs enter new markets through exports, management contracts, joint ventures (JVs), alliances or WOS (wholly-owned subsidiaries) (Williamson, 1985, Hennart, 1988). Entry mode choice is influenced by the level of control a firm seeks, the amount of resources it is ready to commit as well as the level of risk it is willing to take. This has led scholars to categorise entry mode as low, medium and high commitment entry modes depending on the governance and resource commitment a firm is willing to make in its market entry (Anderson and Gatignon, 1986; Ekeledo and Sivakumar, 2004; Brouthers and Nakos, 2004).

The internationalization of service firms in particular is a subject matter of interest as some scholars have argued that it follows the general path of the internationalization of MNCs, while others have stated it to be different because of the nature and characteristics of services (Blomstermo et al., 2006; Boddewyn et al., 1986).

Services are said to possess certain qualities that set them apart from manufactured goods. These qualities include their intangibility, heterogeneity, perishability and in-seperability of consumers and producers (Zeithaml et al., 1985; Jivalgi et al., 2003). Furthermore services are categorised as being soft and hard (Erramilli and Rao, 1993; Ekeledo and Sivakumar, 1998), tradable and non-tradable (Sampson and Snape, 1985; Patterson and Cicic, 1995). These attributes, scholar have argued, make the internationalization of service firms different.

The literature states that banks, as a particular service provider internationalize to seek growth and profit opportunities, and follow their non-financial customers into new markets. Furthermore, they also internationalize to exploit ownership

(O-) advantages that include their tangible and intangible assets (Goldberg and Johanson, 1990; Buch and Lipponer, 2004; Magri et al., 2005).

In entering new markets, banks choose an entry mode that may be shaped by their strategic objectives, their business orientation and a number factors in the host country including regulations, economic and political risk profile, level of governance and geographic and cultural proximity between the banks home and host countries (Outreville, 2007; Cerrutti et al., 2007; Buch and DeLong 2004).

1.3 Research question, aim and objectives

The study aims to observe the phenomenon of international expansion by Nigerian banks within the study period (2005-2012).

The research questions are:

1. What factors influenced Nigerian banks in their decision to expand into foreign markets?

2. What factors influenced the entry mode choice of Nigerian banks in foreign markets?

Clarity would be sought as to why the banks embarked on international expansion at the time they did. Furthermore, the entry mode choice into different markets will be studied to determine those factors that were important in influencing management decisions.

The objective is to examine the motives and modes of entry favoured by Nigerian banks in their international expansion, while also examining the factors that influence their entry mode choice.

Research aim:

To identify factors that influenced the foreign market entry decisions and entry mode choices of Nigerian banks.

Research objectives:

(i) To determine the factors that motivate Nigerian banks to seek foreign markets.

(ii) To determine the factors that influence the entry mode decisions of Nigerian banks in foreign markets.

(iii) Based on (i) and (ii), to compare theory and practice and make appropriate recommendations for the future internationalization of Nigerian banks.

1.4 Research methodology

This study adopts a positivist philosophy and a mixed quantitative and qualitative research approach. Saunders et al. (2009) describe positivism as the epistemological position that works with an observable social reality with the emphasis on highly structured methodology to facilitate replication. Denzin and Lincoln, (2005, p5) stated that,

> "…qualitative researchers study things in their natural setting, attempting to make sense of, or interpret, phenomena in terms of the meaning of the meanings people bring to it."

A case study approach was chosen. Piekkari et al. (2009, p569) defined the case study as,

> "…a research strategy that examines, through the use of a variety of data sources, a phenomenon in the naturalistic contest, with the purpose of 'confronting' theory with the empirical world".

Yin (2009) defined the case study as an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.

This thesis adopted a multiple case study approach. Theories were identified from the literature and propositions developed. Variables (dependent and independent) were also identified and, data was defined, specified, and their sources stated.

Through purposive sampling, five banks that embarked on international market entry were selected for the study. Snowball sampling was used to identify four members of the top management and boards of each bank who were part of the decision making process that led to their bank's foreign market entry. Data was collected from these bank executives through Likert scale questionnaires. Additionally, two members of management who responded to the questionnaires were interviewed to shed more light on their banks foreign market entries. Secondary data were obtained from multiple sources including published financial statements of the banks, banking sector reports, and the publications of the CBN, International Monetary Fund (IMF) and World Bank, among others.

Data collected was coded, categorised and analysed using statistical methods to convert ordinal level data into interval level data on which parametric analysis methods was used. Evidence from the primary and secondary data was presented and compared and contrasted with the theories in the literature. From the findings, the propositions were addressed, and revised when necessary.

1.5 Intended significance of the study (research gap)

Studies on multinational enterprises have been carried out mainly on MNCs from developed countries (Hymer, 1976; Dunning, 1980; Williamson, 1975). There is hardly any study on MMCs from SSA. It is even rarer to find studies on multinational banks from SSA.

There are acknowledged differences in the institutional, macroeconomic and political context of SSA relative to developed countries. This study aims to find whether these theories of internalization are affected by these contextual differences.

Additionally, the study aims to gain deeper insight into the phenomenon of international expansion by Nigerian banks.

The originality of the study is the fact that it adds a country-specific body of knowledge on the factors that influence foreign market entry by banks from a low income SSA country.

As Tschoegl (2001, p.34) noted that,

> "…Much of the literature on the international expansion of banks has focused on the banks from large, developed economies such as the United States, Japan or Great Britain. This is not surprising as these banks account for much of the world's FDI in banking. However, focusing in on these countries of origin risks the creation of a biased view of the total phenomenon of the internationalization of banks. The internationalization of banks from small countries or from developing ones is likely to differ in important ways from that of the banks from large, developed economies."

Furthermore, this study sheds light on the role of context in international business studies. Machiolova (2011, p130) defines context in international business studies as,

> "…dynamic array of factors, features, processes or events which have an influence on a phenomenon that is examined"

Machiolova (2011.p131) argues that context should be given more recognition in international business research because;

> "…there are numerous contextual challenges of 'transporting' social science models across societies and across the intellectual and academic spaces embedded in these societies. Such 'transportation' is likely to question the logic and direction of causality established in one such space and reserve it in another."

Tsui (2004) also recognises the importance of context in international business research. Tsui (2004) stated that context-sensitive research relates to indigenous research which produces contextual knowledge and contributes to global knowledge.

Tsui (2004) argues that context-embedded research links societal variables with organisational level variables and is therefore preferred as compared to the simple replication of existing studies in different locations.

Welch et al. (2011) argue that the contextualized explanation of phenomena, as found in case study research, offers a high degree of contextualization without sacrificing the goal of casual explanation. This view implies that contextualized explanation is a way of reconciling context and explanation. Welch et al. (2011) added that this reconciliation is important since international business research seeks to explain phenomena in diverse national, cultural and institutional contexts.

The findings of this research may be applied by other service sector firms in Nigeria or within SSA that might be contemplating international expansion and would be of useful to businesses, policy makers and academics.

1.6 Outline of the thesis

This thesis is divided into the following chapters.

Chapter 2 reviews the literature and is divided into three sections. The first sections deals with the internationalization and entry mode strategies of multinational firms.

The second section reviews the literature on the internationalization of services firms, while the third section reviews the literature on the determinants, entry mode choice and the organisational forms adopted by banks in their internationalization.

Chapter 3 presents a framework for the research from these theories and also the empirical findings on bank internationalization derived from the literature. From these theories and findings, propositions are developed.

Chapter 4 outlines the methodology adopted for the research. The research approach and research design are stated and methods for gathering evidence are explained. Furthermore, procedures for ensuring rigour in the research are elucidated.

Chapter 5 outlines the methodology for collection and analysis primary data. The sources of the primary and secondary data for the research are explained. The methodology for analysis of the data is clearly stated.

Chapter 6 outlines the results and finding of the research. The findings are then used to support or modify the stated propositions.

Chapter 7 presents conclusions on the research.

1.7 Summary

This chapter has introduced the research question, aims and objectives. The purpose and significance of the research has also been highlighted. The philosophy underlying the research and the approach has been stated and the research design, data collection and analytical methods mentioned. The next chapter will review the literature on the determinants of internationalization and entry mode choice of MNCs, service firms and banks.

CHAPTER 2

LITERATURE REVIEW

This chapter reviews the literature on the internationalization and entry mode strategies of MNCs, particularly service firms and banks. The chapter is divided into three sections. The first reviews the literature on the influences, entry mode theories and strategies adopted by MNCs as they expand into new markets. The second section focuses on service firms and examines their nature, internationalization and entry mode strategies. The third reviews the literature on the internationalization process of multinational banks, including its determinants, the theoretical underpinning behind bank internationalization, the entry mode strategies and organizational forms adopted.

2.1.0 **Firm internalization and entry mode strategies**

International market entry by firms has been the subject of many academic studies. The motives of MNCs are examined in these studies. Furthermore, the modes by which firms enter foreign markets have been found to be influenced by many factors, and theories that predict firms' behaviour in various contexts have been proposed. These sections review these academic theories of internationalization.

2.1.1. **Why firms internationalize**

Internationalization by firms has been defined as the process of increasing involvement in international markets (Welch and Loustarinen, 1988). Firms internationalize for a variety of motives.

Czinkota (2004) noted that there are a number of proactive and reactive motivations for firms to internationalize. Proactive motives emerge when firms possess a profit advantage, unique products, technological advantage, exclusive information, tax benefit and economies of scale. Reactive motivations are forced on the firm due to competitive pressures in the domestic market, overproduction, declining domestic sales, excess capacity, saturated domestic markets and proximity to customers or following clients.

Essentially firms can be said to expand internationally to;

1. exploit market opportunities,
2. achieve economies of scale and geographic scope,
3. exploit their core competences and resources in new markets,
4. source lower cost of supplies, labour, innovation and other inputs in their value chain,
5. and diversify risk.

Ansof (1957) pointed out that new market development is one of the options open to firms seeking growth. Kinderberger (1969) noted that firms internationalize to exploit imperfections and failure of the market, while Hymer (1976) posited that firms expand internationally to exploit firm-specific advantages. Additionally, the need for growth and increased revenue is one of the strong motives for international expansion (Buckley, 2003). Buhner (1987) argued that international expansion provides firms with potential for growth when the domestic industry's life cycle is complete.

As regards economies of scale and geographical scope, Bartlett and Ghoshal (1989) have associated gains with increases borne out of international expansion. These include integrating activities such as research and development (R&D) and marketing which allows for greater economies of scale and geographic scope and leads to cost differentiation advantage, bargaining power and better cross subsidization (Contractor, 2002). Economies of scale also help firms to increase efficiency, learning and innovation. Thus, firms can take advantage of differences in labour, natural resource, capital and regulations like taxation in different foreign markets

Firms also expand internationally to exploit key Ownership advantages (O-) advantages in new markets (Dunning, 1980; Hymer, 1976). These O-advantages such as brand name, unique managerial competence or patented technologies confer competitive advantage on firms (Barney, 1991). Thus, a firm can exploit its firm-specific resources, assets and know-how in different geographic markets (Bartlett and Ghosal, 1989).

Another motive for firms to internationalize is to improve sourcing for a cheaper, better qualified workforce, country-specific resources (Jung, 1991), greater know-how and international experience (Kobrin, 1991).

Recently, there has been an increase in the international expansion of MNCs from emerging countries. Lui and Tung (2007) posit that most of these firms are seeking assets and resources that would improve their access to technology, better governance, and innovation and improved R&D.

2.1.2 Firms' entry mode strategies and theories.

If a firm decides to enter a certain foreign market, it has to choose its entry mode (Erramilli, 1990). Roots (1987) defined a firm's entry mode as an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management, or other resources, into a foreign country. Roots (1987) argues that a firm's prosperity depends on its ability to determine an efficient entry mode strategy which will help it remain competitive globally. Luo (2001) stated that an entry mode has to fit the internal capabilities of the firm, its strategic goals, as well as environmental contingencies. This view is also supported by Contractor and Kundu (1998).

The entry mode choices of firms are contingent on a number of variables which include home and host country factors, firm-specific factors and the strategic goals of the firm (Erramilli, 1991; Contractor and Kundu, 1998).
In choosing an entry mode, a firm would be aware of internal and external factors that can impact on its strategic objective as it expands into a foreign market. This helps the firm determine the level of control it seeks, the level of resources it is willing to commit and the level of risk it is willing to take as it enters a new market (Anderson and Gatignon, 1986; Erramilli and Rao, 1993; Contractor and Kundu, 1998).

Control refers to the level of authority a firm may exercise over the systems, methods and decisions of foreign affiliates (Anderson and Gatignon, 1986; Brouthers and Nakos, 2004). The level of control a firm seeks for a foreign operation is important in determining the level of resources it would commit and the level of risk it would take (Anderson and Gatignon, 1986; Ekeledo and Sivakumar, 2004).

Firms enter new foreign markets by a variety of means, i.e. equity and non-equity modes (Williamson 1975; Erramilli, 1990). Non-equity modes include indirect or direct exports and contractual modes like licensing, franchising and alliances. In the case of banks, unique, low commitment entry modes would include representative offices and agencies. Equity modes of entry involve the commitment of resources by the firm and include equity joint venture (JVs) and WOSs.

According to Brouthers and Hennart (2007), there seem to be two different perspectives on the meaning of entry mode and contractual mode. The first perspective arranges contracts (e.g. licensing, management contracts and JVs) and WOSs along a continuum of increasing control, commitment and risk. Anderson and Gatignon (1986) identified seventeen mode structures on this continuum but reduced the governance modes to low, medium and high entry modes, while Erramilli and Rao (1993) identified eleven. The second perspective is articulated by Hennart (1988a) who does not see JVs as a stage in the continuum between contracts and WOSs but instead classifies modes of entry into two categories, contracts and equity, with both JVs and WOSs in the equity category

A large number of theories have been used to explain entry mode choice decisions. A review by Brouthers and Hennart (2007) noted that among the most commonly applied are TCA, the RBV, institutional theory, and Dunnings's eclectic framework, which are used as the theoretical foundations for almost 90% of published entry mode studies (Brouthers and Hennart, 2007).

Entry mode theories in international business have been looked at from a number of perspectives, but the most common seems to be that of Benito and Grisprud (1992) who analyse at international expansion from two perspectives: The Economic Perspective and the Process Perspective (Hermannsdottir, 2008).

2.1.2.1. **The economic perspective**.

The economic perspective focuses on the firm and its environment. It assumes that firms are rational in their choice of investments. Decision makers have access to perfect information and are rational, choosing the optimal solution (Anderson, 2000).

The economic approach focuses on two fundamental aspects of international production; the ownership of assets employed in production activities in different countries and the locational pattern of such activities (Glückler, 2006).

A firm's decision to invest abroad is looked at from the perspective of cost and benefit, and theories from the economic perspective include FDI theories (internalization, eclectic theory, product life cycle theory), TCA and the RBV.

Theories from the economic perspective are based on the idea of the imperfectness of the market mechanism. The aim of firms is to seek optimally efficient ways of entering new markets. Entry into new markets is viewed as a one-off transaction that calls for a trade-off between risk, controls and resource commitment (Anderson and Gatignon, 1986). Market imperfections and market failures generate opportunities for those firms possessing O-advantages that can be exploited in foreign markets (Hymer, 1976).

According to Glückler (2006, p.362),

> "…The theory of FDI sees international market selection largely as a normative, efficiency led rational decision. Firms identify their specific competitive advantages and then look for those location-specific advantages of the market that provides the best production (or sales) condition"

Some of the theories of the economic perspective are reviewed below.

(i) Eclectic theory

The eclectic theory was developed by Dunning (1980), and several other scholars have lent support. Dunning's approach is more in the nature of a theoretical framework to explain the why, where and when of international production.

This means trying to explain: why certain firms are in a position to take up investment opportunities abroad; where would production be located and when is a firm likely to opt for direct production rather than other forms of international business such as exporting and licensing (Ioetti-Gillies, 2007).

The theory emphasises the three sets of attributes that determine a firm's motives, location and ownership structure when expanding internationally. These attributes are ownership (O-) advantage, location-specific (L-) advantage and (I-) internalization advantages I-advantages (Ioetti-Gillies, 2007).

O-advantage refers to tangible and intangible assets, which are, at least for a while, exclusively possessed by the company and which may be transferred within the firm's international subsidiaries at low cost, leading to higher income or reduced cost (Dunning, 1980).

These include monopoly advantages like trademarks, patents, and ownership of limited natural resources. The O-advantages may help it overcome the "liability of foreignness" (Zaheer, 1995). They also include the benefits of large scale that engender economies of learning, scale and scope, and access to financial capital.

L-advantages are key factors that will determine where a firm locates its FDI. These include economic, social and political factors that can confer advantages on a host country. It also includes the fit between the chosen market and the firm's strategy.

I-factors offer a framework for assessing the different ways in which a firm will exploit its powers from the sale of goods and services. I-factors are relevant to contractual risk that may make controlling foreign affiliates through FDI more beneficial than licensing a local firm to offer the product in a foreign market (Agarwal and Ramaswami, 1992). The firm will evaluate the benefit of retaining tangible and intangible assets within the firm as well as judging whether transaction costs would be less if production were internalized.

The eclectic theory has been further developed by Dunning and other scholars, including Hill, Hwang and Kim, (1990) who elaborated on Dunning's version by identifying strategic (need to control), environmental (resource obligation) and transaction variables (level of risk).

Other researchers including, Agarwal and Ramaswami (1992) and Brouthers et al. (1999) have carried out empirical studies that support the eclectic theory.

Entry mode strategies using the eclectic theory

The higher cross-border market internalization benefits become, the more the firm will want to engage in foreign production rather than other modes of international expansion like exports, licensing and franchising. The primary purpose of the eclectic theory is to find the advantages that would make a firm choose FDI, but Hill, Hwang and Kim (1990) proposed three underlying variables that would influence a firm's entry decision, i.e., the level of control desired, amount of resource commitment and knowledge dissemination risk. They considered three general entry modes- licensing, JVs and WOSs (Carneiro, 2006). Depending on the level of each variable, different entry modes would be suggested, so some trade-offs would sometimes have to be accepted to choose one entry mode over the other.

Limitations of the eclectic theory

Scholars have noted some limitations of the eclectic theory. The theory is said to be unable to present an integrated view for the explanation and prediction of entry mode choices of firms. The theory is also criticised for assuming that when there is no market failure, FDI does not occur, but firms are usually involved in alliances and JVs to improve their competitive advantage (Ekeledo and Sivakumar, 2004).

Furthermore, Rugman (1981) contends that the border between the O and L-advantages is severely blurred. Rugman et al. (2011, p762) argue that,

> "…Dunnings's eclectic paradigm… struggles to integrate country and firm level interactions."

Rugman et al. (2011) note further that Itaki (1991)

> "… has voiced the strongest criticism of the eclectic paradigm, and claimed that an O-advantage could actually be derived from an I-advantage, in which case it would be redundant to consider these two variables as separate determinants."

(ii) TCA

This theory draws on the early work of Coase (1937) and was further expanded by Williamson (1975) as each sought to explain the behaviour of the firm. The underlying message of the theory is that a firm's internationalization decisions, whether to export, franchise or produce, are a function of TCs. The inclusion of all costs is considered when making a decision and not just market prices. These include the cost of negotiating, monitoring and enforcing a contract as well as the risk of opportunism and the limitations of bounded rationality from incomplete information (Williamson, 1985).

Assumptions of opportunism and bounded rationality about the parties to the transaction are also balanced by assumptions about the nature of the transaction. These assumptions include asset specificity, uncertainty and transaction frequency (Williamson, 1985; Brouthers and Nakos, 2004).

TCA seeks to determine what conditions and contingencies would predict if a firm would produce through the market or hierarchies. Market and hierarchy are alternative mechanisms of management used for the coordination of transactions. The choice of hierarchy or management mechanisms for the coordination of transactions depends on the relative cost of the market and hierarchy, respectively. These two alternatives have been analysed by Williamson (1985) as equity and non-equity modes of market entry.

In line with Williamson (1975), Anderson and Gatignon (1986) portray control over operations as a function of transactions and create a framework that depicts the choice of governance ranging from low, medium to high levels of control as well as identifying the determinants of governance as being asset specificity, external uncertainty, internal uncertainty and free riding potential (Anderson and Gatignon, 1986).

Entry mode strategies using TCA

TCA has been used widely in entry mode research to explain why large firms utilize different modes in expanding abroad (Brouthers and Brouthers, 2003; Delios and Beamish, 1999; Erramilli and Rao, 1993; Gatignon and Anderson, 1998; and Brouthers and Nakos, 2004).

TCA considers markets to be the default governance structure, i.e. low commitment level entry modes to be preferable unless proven otherwise (Anderson and Gatignon, 1986).

Studies conducted on entry mode choice using the TCA have focused mostly on asset specificity, internal and external uncertainty and the free riding element as major considerations for managers that would determine how they enter new foreign markets (Anderson and Gatignon, 1986).

The term asset specificity is used to describe investments that are specific to a transaction and which lose value in alternative uses (Williamson, 1985; Maekelburger et al., 2012). They include physical and human capital used in the transaction. Physical capital includes physical property, finance, and production, while human capital includes specialised training and R&D. Other assets include propriety technology, reputation and brand name among others.

The idiosyncratic nature of these investments makes them vulnerable to opportunism and "hostage taking" (Maekelburger et al., 2012). The TCA states that when asset specificity is high, then hierarchies should be used for entry, i.e. an equity entry mode (Williamson, 1985). Empirical tests of this assertion have been supported in studies by Erramilli and Rao (1993), Gatignon and Anderson (1988), and Brouthers and Brouthers (2003) among others, while Delios and Beamish (1999) found the opposite effect.

Internal or behavioural uncertainties arise from the inability of a firm to predict the behaviour of individuals, especially its workers and agents in a foreign country.

According to TCA, behavioural uncertainty may lead to opportunistic behaviour by a firm's workers (Williamson, 1985; Anderson and Gatignon, 1986). Thus in order to minimise opportunism, a firm has to develop some types of internal control and this is usually done through integration, i.e. reducing the ability of trading partners to cheat by embracing them within the firm (Brouthers and Hennart, 2007).

Internal control is a mechanism learned over time (Delios and Beamish, 1999; Hennart, 1988). According to Johanson and Vahlne (1977), firms develop skills at controlling international operations through experience and researchers have used the years of internationalization and the geographic scope of a firm as proxies for such experience. This ability is viewed as a resource or capability, and firms that possess it would chose to internalize their operations. Internal uncertainty is generally thought to be lower if a firm has more international experience (Zhao et al., 2004). When a firm lacks internal control mechanisms, it may prefer to shift control to agents and enter a foreign market through non-equity modes (Anderson and Gatignon, 1986; Williamson, 1985).

Besides internal and behavioural uncertainty another subset is environmental uncertainty. This refers to the risk associated with a host country and includes legal, political and economic risk. These risks include the ability to enforce contracts, protect the firm's tangible and intangible assets and prevent free riding behaviour by the firm's agents (Gatignon and Anderson, 1988; Erramilli and Rao, 1993; Madhok, 1997; Brouthers and Nakos, 2004).

Zhao et al. (2004) suggests that country risk and cultural distance are the two most common constructs explaining environmental uncertainty, where cultural distance is the difference in culture, language, beliefs and business practices between the home and host countries (Kagut and Singh, 1988; Shenker, 2001). Through meta-analysis Zhao et al. (2004) found that various measures of country risk have a statistically significant, negative impact on the probability of the firm choosing a WOS.

Political, economic factors and the quality of a country’s governance also affect environmental uncertainty (Slagen and van Tulder, 2009). Thus, higher country and environmental risk favours entry modes with low resource commitment and conversely low country risk favours high equity entry modes. Likewise, researchers have pointed out that when TCs are higher than internal costs, firms tend to seek higher forms of control and ownership, like overseas production and WOSs. Conversely, when TCs are lower than internal costs, firms may outsource production (Erramilli and Rao, 1993, Brouthers and Nakos, 2004).

Limitations of the TCA

The TCA model seems to ignore internal TCs when it assumes a zero-sum situation. Problems may arise between head-office and its sales subsidiary when internal transfer price has to be settled. Despite the ability to explain why firms prefer FDI as an entry mode, the model overlooks the role that L-advantage can play in a firm’s entry mode decision just as it fails to recognise that strategic concerns can motivate a firm to use a collaborative entry mode (Ekeledo and Sivakumar, 2004).

It has been observed that the TCA model seems to relate better to multinational firms. In small and medium scale firms, the lack of resources and knowledge are major reason for the externalization of activities.

(iii) RBV

The RBV emphasises the internal capabilities of the organisation in formulating a strategy to achieve a sustainable competitive advantage in its market and industry. The theory is about how a firm harnesses its resources and capabilities to compete in its external environment. These resources include physical, human and organizational assets possessed by the firm that can confer a competitive advantage. According to Barney (1991), these resources are valuable, rare, inimitable and non-substitutable.

The RBV adopts two assumptions in analysing sources of competitive advantage. The first assumption is that firms within an industry may be heterogeneous with respect to the bundle of resources that they control. Secondly, it assumes that resource heterogeneity may persist over time because the resources used to implement a firm's strategies are not perfectly mobile across firms (i.e. the resource cannot be traded in factor markets and are difficult to accumulate and imitate). Resource heterogeneity (uniqueness) is considered a necessary condition for resource bundles to contribute to competitive advantage (Bridoux, 2004).

According to Ekeledo and Sivakumar (2004), resources that can confer competitive advantage on a firm include: proprietary technology; tacit knowledge; business experience; specialised assets; firm size; organisational culture; and reputation. These resources help the firm to exploit opportunities in both the domestic and foreign markets.

Entry mode strategies of the RBV

The default assumption of the RBV is that sole ownership is the preferred mode of entry until proven otherwise (Hamel, 1991). Majkgård and Sharma (1999) noted that the firm's capabilities and resources act as an advantage and a limitation in choosing a market that can help a firm gain sustained rent from its resources and capabilities. Madhok (1997) argues that the existing stock of a firm's resources and capabilities, and the requirements of operational context, both direct and limit its strategic evaluation of a particular market entry. The firm has to find a location that makes the resource transfer worthwhile and also has to make an ownership choice based on the opportunity and risk provided by its resources and chosen location (Ekeledo and Sivakumar, 2004).

Since it is the resources of the firm that confer on it a competitive advantage, firms may seek sole ownership modes in entering new markets. Kagut and Zanders (1993) and Madhok (1998), in explaining why firms with tacit knowledge and firm-specific capabilities internalize, noted that the process of transfer of knowledge to agents and third parties increases TCs. These increased TCs, rather than the fear of opportunism, is the reason that firms internalize.

Collaborative entry mode choices are dependent on the strategic objective of the firms. When a firm lacks the full means to exploit its main asset in a foreign market it will seek to employ a collaborative mode of entry (Ekeledo and Sivakumar, 2004).

Limitations of the RBV

A frequent criticism of the RBV is its narrow emphasis on internal enterprise development. Cooperation between firms and the importance of external relations are only considered to a limited extent but empirically tested studies have shown that firms, on the basis of their resources and capabilities, take strategic decisions that lead them to enter markets by collaborative means, e.g. JVs or strategic alliances. This goes against the assertion of RBV researchers that full ownership of an enterprise is the best mode of operation, until proven otherwise. The difficulty in measuring the intangible assets of the firms is also another point of criticism (Ekeledo and Sivakumar, 2004).

2.1.2.2 The process perspective of the internationalization of firms

The process perspective of internationalization has its base in organizational theory. It replaces economic man with behavioural man. The theories and models following the behavioural approach treat individual learning and top managers as important aspects in understanding a firm's international behaviour. The theory is built on bounded rationality (Anderson, 1993; Anderson, 2000; Hermannsdottir, 2008).

The focus of the behavioural approach is on the impact of international experience on the pace and direction of subsequent internationalization. An important theme is the role of organizational knowledge in the internationalization process, which is viewed as a sequence of steps by which firms acquire experience and knowledge about external markets (Hermannsdottir, 2008).

(i)The internationalization process and stage models

The Internationalization Process Model has its theoretical foundation in the behavioural theory of the organisation (Cyert and March, 1963) and the theory is closely associated with the works of Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977).

Anderson (1993) distinguished two models of the internationalization process theory, namely the U-model (Uppsala) promoted by Johanson and Vahlne (1977) and I-models (Innovation) by Bilkey and Tesar (1977), Cavusgil (1980), Czinkota (1982) and Reid (1981). The U-model is applied to firms of any size while the I-model is applied to small firms (Anderson, 1993) and incorporates the individual actions of top managers of the firm as an important aspect of understanding the firm's international behaviour (Anderson, 2000).

The main assertion of the process theory is that market knowledge, gained from experience, leads to increased foreign commitment (Johanson and Vahlne, 1977). Knowledge is divided into objective and experiential knowledge. Objective knowledge is acquired through standardized methods of collecting and transmitting information and can be easily transferred to other countries and replicated by other firms (i.e. market research). Experiential knowledge on the other hand is country-specific and cannot be transferred between firms or business units (Erikson et al., 1997).

The model rests on the assumption that firms have imperfect access to information (bounded rationality) and explains internationalization as a process of increasing experiential knowledge. It postulates an unpredictable, incremental interplay between market commitment and knowledge development (Erikson et al., 1997). It contends that experiential knowledge of the market, the clients and the problems and opportunities abroad, are acquired by operating in the international market.

The model views internationalization as a sequential process whereby the present state of internationalization is an important factor in explaining the future path of internationalization (Santangelo and Meyer, 2011).

Thus, experiential knowledge not only yields a reduction of risks involved in going abroad, but also provides a vehicle for acquiring knowledge of internal and external resources and of opportunities for combining them (Erikson et al., 1997). With this knowledge, firms can marginally reduce the transaction costs of subsequent international market entries.

According to Johanson and Vahlne (1977), firms enter new markets with successively greater psychic distance. Psychic distance has been defined as factors preventing or disturbing the flow of information between firms and the market. These factors include differences in language, culture, political systems, and level of education or industrial development (Johanson and Vahlne, 1977). To explain the incremental character of internationalization, Johanson and Vahlne (1977) formulated a dynamic model in which the outcome of one cycle of events constituted the input to the next (Anderson, 1993).

The main structure to their model is given by the distinction between state and change aspects of internationalization variables. State aspects are the market commitment and knowledge about foreign markets and operations. The change aspects are decisions to commit resources and the performance of current business activities (Johanson and Vahlne, 1977; Anderson, 1993).

In a revised view of the model, Johanson and Vahlne (2009) explain that businesses are made up of networks of relationships in which knowledge is shared between network members to help to reduce uncertainty more than psychic distance in the internationalization process. In this new model, firms are committed to their positions in business networks by building trust, creating knowledge and creating opportunities for those firms inside the network and these in turn affect a firm's commitment decisions.

Entry mode strategies using the internationalization process theory

According to Forsgren and Johanson (1992, p2),

> "…International expansion is inhibited by the lack of knowledge about markets and such knowledge can mainly be acquired through experience from practical operations abroad".

Lack of experience is related not only to cost, but also to the options considered by decision-makers (Erikson et al., 1997). After a target market is identified, the framework uses the concepts of market commitment and market uncertainty to explain which entry mode would be preferable. Initially, only low commitments modes and nearby markets are considered as options for international expansion, but as firms acquire more experience from conducting business abroad more distant markets and higher commitments may be considered.

Thus, firms are said to start their internationalization through exports, first, to countries with low psychic distance, i.e. to countries that are less different from the home country with respect to language, culture, levels of education, industrialization and political system (Johanson and Vahlne, 1977) and later, having built up international experience, move into markets at greater psychic distance to their home. As Meyer (2001, p360) notes,

> "…lower psychic distance reduce the need to invest in information, to train local staff and to adopt management processes to the business".

Hence it assumes that the gradual internationalization process follows a path-dependent pattern. This assertion has been corroborated in studies by Qian and Delios (2008) and Blomkvist and Drogendijk (2012).

Johanson and Vahlne (2009) have put forward the proposition that being inside business networks affects the internationalization and commitment decisions of firms by helping them build trust, share knowledge and information and create opportunities. Firms inside such networks internationalize with less uncertainty.

Limitations of the internationalization process model

Several authors have criticised the internationalization process model (Anderson, 2000; Anderson, 1993). Criticisms include the fact that the stages in the model were restricted to specific country markets (Anderson, 1993), just as it has been noted that the model ignored contractual modes of entry (Sharma and Erramilli, 2004).

The model is said to be too deterministic in nature (Reid, 1981) and is only important in the early stages of internationalization when a lack of market knowledge and market resources is still a constraining form, but less valid if markets become more homogenous (Forsgren, 2002).

In the same vein, it has been argued that the importance attached to experiential knowledge constitutes both a strength and weakness for the theory. Experience is slow to build, share and integrate within the firm. Thus, if firms base their international decision largely on experiential knowledge, their internationalization process will invariably be slow. Even then, it has been empirically demonstrated that the choice of entry strategy does not always correspond to the sequential step-by-step approach (Bell et al., 2004).

(ii) Network theory.

Network theory is a theory of internationalization of firms that emphasises relationships as an exchange governing mechanism (Johanson and Mattsson, 1988; Benito and Welsh, 1994). The network perspective shifts the focus of the unit of analysis from individual firms to their relationships

In the network theory, markets are viewed as a system of relationships among a number of players including: customers; suppliers; producers; competitors; and private and public support agencies (Coviello and Munro, 1995). The networks exist both within and outside national boundaries. This implies that the internationalization process of firms may be initiated by activities of other firms within cross border networks.

Entry mode strategies using the network perspective

The networks of relationships and players, as opposed to strategic decisions, play an essential part in international market entry, as a firm’s entry mode is influenced by its network partners (Coviello and Munro, 1995).

Foreign market entry may be at the instigation of network partners and may follow when a firm's partner demands that the firm accompanies them abroad. According to Johanson and Mattson (1988) the internationalization of a firm means that the firm establishes and develops its position in relation to counterparts in foreign networks. Usually information about foreign markets is provided by other network partners.

Limitations of the network perspective

Critics of the network theory have noted the problem that may occur when the actors in the network have a different view on how to structure the network (Håkånsson and Johanson, 1992). Some researchers have argued that networks provide a mechanism to provide resources rather than internationalization (Bell, Crick and Young, 2004). Furthermore, it has been noted that when a firm internationalizes in accordance with the network model, the risk will increase when it becomes more dependent on suppliers, some of whom might be unreliable.

This review has so far sought to understand the determinants of internationalization and entry mode strategies into foreign markets of MNCs in general, and the literature has addressed mainly the internationalization of manufacturers of goods. However, some scholars have argued that service firms have different characteristics that influence their internationalization. In the next section, the focus will be on the nature, internationalization and entry mode strategies of service firms.

2.2 Service firms: nature, internationalization and entry mode strategies

The service sector of developed economies has become a new frontier in international business (Knight, 1999). According to the World Bank (2002) the value of global trade in services constitute about two thirds of global output and accounted for the highest portion of total economic activity in countries such as the USA, Japan and other industrialised nations (Jivalgi and Martin, 2007). The service sector is also growing in developing countries, including China, Indonesia, Mexico and Argentina and others (Jivalgi and Martin, 2007).

There are numerous research contributions on the internationalization of manufacturers of goods but few on services (Grönroos, 1999). Whereas some researchers claimed that many aspects of the manufacturing sector are also applicable to the services sector (Blomstermo et al., 2006; Boddewyn et al., 1986; Hellman, 1996), others have argued that the internationalization of services has many distinctive characteristics (Jivalgi et al., 2003; Ekeledo and Sivakumar, 1998; Knight, 1999).

2.2.1 The nature of services

There are a number of characteristics which distinguish services from manufactured goods. According to Zeithaml et al. (1985), services are imbued with the following characteristics -intangibility, heterogeneity, perishability, inseparability or simultaneity of production and consumption. Few services display all these features, although most exhibit more than one.

(i) Intangibility of services

Because services are performances and experiences, rather than objects, they cannot be seen, felt, tasted or touched in the same manner in which goods can be sensed (Zeithaml et al., 1985). Researchers have looked at the difficulties of evaluating a service before, during and after a purchase, selecting between alternatives, as well as the perceived risks. The intangible nature of services makes it difficult for a customer to examine the quality of service before committing to a purchase (Blomstermo et al., 2006).

In general terms, service customers buy performance, expertise and experience. Compared to physical products, customers encounter and perceive an extreme degree of risk and uncertainty when purchasing a service due to their intangibility (Carneiro, 2006).

To reduce uncertainty, buyers look for signals of service quality. They draw conclusions about quality from the places, people, equipment, communication materials and prices that they can see. As a result, reputation, partly represented by the trademark and brand name, is very important to both the service provider and customers (Carneiro, 2006). In reality, all products combine tangible and intangible dimensions and move on a continuum from "tangible dominant" to "intangible dominant".

(ii) Heterogeneity of services

This describes the degree of service uniqueness provided to each consumer by a service provider. Heterogeneity is connected to variability in the performance of the service. The quality and essence of a service, like financial, medical examinations and accounting services, can vary from producer to producer and from customer to customer (Zeithaml et al., 1985). Services are highly heterogeneous in the sense that, unlike products, no one service performance is identical to another. For example, professional financial services are customized to deliver varying degrees of: consumer financial risk; investments; time-frames; and goals for each service client. In contrast, the homogeneity of services infers that there is a high degree of service consistency and service delivery. Examples of service homogeneity include the consistent delivery of "fast food".

(iii) Perishability of services

Perishability indicates that a service may not be captured and stored for later use. Perishability relates to the ephemeral nature of services. As a result, they cannot be inventoried for later sales or use after production. Hotel rooms not occupied, airline seats not purchased and telephone line capacity not used cannot be reclaimed. Because services are performances that cannot be stored, supply and demand balancing is difficult (Zeithaml et al., 1985).

(iv) Inseparability of services

This refers to the simultaneous production and consumption which characterise most services. Whereas goods are first produced, then sold and then consumed, services are first sold and then produced and consumed simultaneously (Zeithaml. et al., 1985). In contrast separability refers to the degree to which the customer is not present during service production. For example professional financial managers receive and invest funds from clients without the consumer being present. Therefore, some services lend themselves to the separation of the service provider and consumer (Ekeledo and Sivakumar, 1998).

Some scholars have categorised services into hard and soft services. Hard services are services where production and consumption of the service can be de-coupled e.g. music and distance- learning education, while soft services are those where production and consumption of the service are done simultaneously and cannot be de-coupled. They include health, financial and hotel services (Erramilli and Rao, 1993, Ekeledo and Sivakumar, 1998). Evidence from Majkgård and Sharma (1999) supports the notion of hard and soft services.

Services have also been categorised according to their tradability with Samson and Snape (1985), Patterson and Cicic (1995) and Clark et al. (1996) putting forward the proposition that separable services are easier to export than non-separable services.

2.2.2 The internationalization of service firms

Lee and Carter (2012, p328) noted that it is difficult to define international or cross-border services because services comprise experiences and performances. Providing cross-border services would depend on the nature of the service, the type of relationship a service provider would have with its customers, the amount of room there is for customization of the service, the nature of demand and supply for the service and how the service is to be delivered.

A service firm that plans to market its services internationally has to find a way of making its services accessible in the chosen foreign market. According to Erramilli (1990) service firms may internationalize for the following reasons: market-seeking, client-following and resource-seeking.

Research on services internationalization indicates that services typically are client-followers who are first entrants into foreign markets (Erramilli, 1990). For example, in studies of banking and advertising industries, following clients was found to be the major reason for internationalization (Nigh et al., 1986; Terpstra and Yu, 1988). Modes of internationalizing services may now have become more diverse as the development of new technologies for electronic commerce has made services less dependent on local operations (Grönroos, 1999).

International service offerings differ from domestic services in two respects: they necessarily involve crossing national boundaries and they have some type of engagement with a foreign culture (Clark et al., 1996). For these reasons the internationalization of services is often considered more risky than for manufacturing firms.

Erramilli (1990) noted that the international entries of service firms tend to be restricted, e.g. rendering services in a foreign country typically requires firms to manage unique obstacles, including immigration and labour policies, differing tax laws, the absence of bilateral trade treaties, information, legal problems, government protectionism and policies (Davies, 2004). Similarly, services sell competences and performance which, at an international level, require the hiring and training of individuals with particular characteristics, including multi-language abilities, cultural sensitivities, international business acumen, and local host country orientation.

Furthermore, the nature of services - intangibility, heterogeneity, perishability and simultaneous production and consumption of services - all create various problems that affect the internationalization of service firms (Jivalgi and Martin, 2007; Lee and Carter, 2012).

Intangibility creates the problem of explaining and promoting services, often without being able to demonstrate them. This gives rise to the need for greater marketing and stable partner relationships (Blomstermo et al., 2006).

The inseparability of services increases the need to establish and maintain local presence in each market served, and the heterogeneity of services means that output variations that are random can play havoc with customers' expectations, perceptions and satisfaction (Zeithaml et al., 1985; Jivalgi and Martin, 2007; Lee and Carter, 2012).

Several explanatory variables have been suggested as influences on the internationalization of services (Carneiro, 2006). These include:

(i) Environmental factors - legal requirements and restrictions, market potential, political risk, environmental uncertainty, psychic distance, and the existence of capable potential licensees.

(ii) Firm related factors - firm size, managerial resources, market knowledge, international experience, strategic objectives and motivation.

(iii) Service-specific factors - capital intensity, degree of investment, degree of tangibility, degree of personal interaction, need for quality assurance or image control and extent of knowledge transferability.

Zhao and Decker (2004) added industry-specific factors - market size and industry type - to their list of factors affecting the choice of entry mode for service.

2.2.3 Entry mode strategies for services

Comparison has been made between entry mode strategies for manufactured goods and those for services. Some authors such as Terpstra and Yu (1988) believe the same factors influence the choice of entry mode in the case of goods and services.

Others authors including Erramilli and Rao (1993) claim that differences did exist between manufactured goods and services.

Service firms enter new foreign markets through a variety of means including management contract, alliances, JVs and FDI (Erramilli and Rao, 1993; Contractor and Kundu, 1998). Most service firms use FDI, because their capital needs tend to be much lower compared with manufacturing firms (Terpstra and Yu, 1988). Service firms can also choose a collaborative mode of entry, such as JVs, in order to improve their access to markets, complementary resources and information (Ekeledo and Sivakumar, 2004). JVs are also used for services in which production and consumption occur simultaneously and which require local presence due to the importance of face-to-face contact (Contractor and Kundu, 1998).

Service firms have to find an entry mode and strategy that helps them to cope with different contextual situations as well as achieve the firm's strategic objectives (Ekeledo and Sivakumar, 2004; Contractor and Kundu, 2002). Entry mode choice is also influenced by industry-specific factors that include the technology used to produce the service, degree of standardization or customers adaptation, degree of intangibility and information asymmetry, the needs of the customers and the need for physical presence or because customers differ (i.e. the need to provide relatively sophisticated service offerings); or because competitive conditions vary (Carneiro, 2006).

Erramilli (1991) investigated the impact of a service firm's international experience on the type of foreign entry and found that in support of generally accepted internationalization theory, as service firms become more experienced internationally - both in length of time and geographic scope - they tend to expand to more physically distant countries. Erramilli (1992) observed that service firms tend to use high control entry modes the larger the foreign market size and absence of host country suitable partners.

Psychic distance is another variable that affects the entry mode choice of service firms. It includes the cultural, political and social similarity between a firm's home and host countries.

Furthermore, psychic distance may lead the service firm to choose low commitment forms of entry until experiential knowledge is acquired (Blomstermo et al., 2006). When psychic distance is moderate, service firms may resort to using collaborative modes of entry. Erramilli and D'Souza (1995) found that firms tend to use FDI as their preferred entry mode when environmental uncertainties are high and capital intensity is low.

International operations may also face internal or contractual risk (Agarwal and Ramaswami, 1992). And when such contractual risks are high, services may choose full control entry mode, especially if they have knowledge and codified routines that constitute part of their intangible assets (Madhok, 1997; Barney, 1991; Ekeledo and Sivakumar, 2004).

Other variables that have been used to determine entry mode choice include uncertainty, cultural distance, level of intangibility and inseparability of the service offering, and type of service offering.

This section has dealt with the nature and internationalization pattern of services. The next section will deal with the entry mode choices of banks and their determinants. Multinational banking has increased in recent years as many factors have led to the increased cross-border M&A and increased foreign bank participation in once restricted markets

2.3 Bank internationalization and entry mode strategies

Banks are institutions that provide financial services and like all services, banking services are intangible, heterogeneous, in-seperable and perishable. The main purpose of banking is financial intermediation between depositors and borrowers. Funds saved in banks are loaned to borrowers at a margin.

Information on the banking needs of clients, as well as information on credit-worthiness of borrowers is vital to banks. Thus, in order to generate this information banks usually require a large degree of face- to-face interaction with clients and borrower (Gulamhussen, 2009).

In line with the rapid growth of the services sector globally, banks have expanded rapidly around the world from the United States, Canada, Australia, Europe, and other OECD countries, Latin America, Africa and the transition countries (Miller and Prakhe, 1998; Guillén and Tschoegl, 1999; Konopielko, 1999).

According to Cull and Peria (2010) the process of financial globalisation has accelerated because countries have opened up their stock markets to foreign investors, allowed domestic firms to cross-list and issue debts overseas and have welcomed FDI into their local financial sectors. Tschoegl (2001) noted that the spread of banking internationalization is a result of the increase in global trade and FDI, the globalization of financial markets, and the reduction of restrictions and regulations in many countries.

Bank internationalization has been explained by a number of theories including industrial organization theory, internalization theory, and the eclectic theory (Williams, 1997). Qian and Delios, (2008) observed that substantial empirical work has been done on the internationalization of banks to address the motivations for foreign expansion (Buch, 2000; Magri et al., 2005; Focarelli and Pozzolo, 2001), what factors determine a bank's choice of foreign market (Miller and Prakhe, 1998; Nigh et al., 1986; Gulamhussen, 2009), and what influences the entry mode choices of an international bank (Ball and Tschoegl, 1982; Buch, 2000).

2.3.1 Why banks internationalize

The theory of international expansion by banks is heavily based on the theory of FDI in manufacturing. These theories state that firms embark on FDI due to market imperfections, thus, firms with firm-specific advantages may internationalize despite the liability of foreignness (Hymer, 1976; Zaheer, 1995).

Essentially firms can be said to expand internationally to exploit market opportunities, achieve economies of scale and geographic scope, exploit core competences and resources in new markets, source lower cost of supplies, labour, innovation and other inputs in its value chain as well as diversify risk (Czinkota, 2004).

Banks also embark on international market entry for most of the reasons that MNCs in general internationalize, but some scholars have noted that the nature and characteristics of banking engender slight variations in their internationalization. According to this explanation, multinational banks (MNBs) possess some advantages that allow them to produce financial services at lower cost in their domestic and foreign markets. But researchers have noted that MNBs are distinct from other MNCs in terms of the nature of their product offerings, the information intensity imbedded in their products, and the ways in which they undertake their internationalization (Contractor and Kundu, 1998; Qian and Delios, 2008)

Researchers have noted that the most common determinants of international bank expansion have been banks following their non-financial clients abroad to defend relationships with their clients (Williams, 1997). Other reasons for international expansion include growth and profit seeking motives, seeking to exploit O-advantages including its capital, size, brand name, reputation, technology, etc.

The institutional context of the home and host country also provides another motivation for expansion. The institutional parameters in the host country include financial regulations, the quality of financial supervision, the quality of law enforcement, the openness of host country authorities towards foreign bank entry and the role of information (Buch, 2000; Focarelli and Pozzolo, 2001).

Below is a review of some of the determinants of bank internationalization as recorded in the literature.

(i) Internationalization to follow clients

Banks possess O-advantages which bestow on them some advantages with which they compete in both domestic and foreign markets. These include innovative products, better intermediation technologies or superior management qualities and information on the banking needs of its domestic clients (Cho, 1986).

Firms prefer to do business with a small number of banks, so as not to reveal sensitive financial information to many financial firms (Nigh et al., 1986). Information on clients' banking needs is used to explain the "follow-the-client hypothesis" (Goldberg and Saunders, 1981; Goldberg and Johanson, 1990). Information on the banking needs of clients that have embarked on internationalization creates information asymmetries in foreign markets which the bank can exploit. This information constitutes an O-advantage for the bank (Grubel, 1977).

Thus, these banks have an advantage over local banks in serving their clients and usually follow their clients into foreign markets. Studies that have noted a positive co-relationship between client-following and banking internationalization include Goldberg and Saunders (1981), Konopielko (1999), Miller and Prakhe (1998) and Buch (2000).

In the same vein, banks sometimes expand internationally to keep competitors from their clients. This is the defensive expansion theory (Grubel 1977, Williams 1997). According to the theory, banks follow FDI by the non-financial sector to defend relationships with their clients. Evidence of this motivation has been seen in a number of studies that found significant relationships between the level of FDI from the USA in a country and the level of participation by US banks in that country (Goldberg and Saunders, 1981; Goldberg and Grosse, 1989).

However, Seth et al. (1998) found that foreign-owned banks in the US allocate a majority of their loans to non-home country borrowers. Similarly, Berger et al. (2003) found that two-thirds of non-domestic MNCs in Europe chose banks headquartered in the host country for cash management and other banking transactions.

So although a majority of studies support the follow-the-client view, Clarke et al. (2003) pointed out that studies that find a positive correlation between non-bank FDI and bank FDI do not necessarily support the hypothesis, as this may be explained by other variables, such as factors inherent in the host market which attract both bank and non-bank FDI.

(ii) Internationalization to seek profit and growth opportunities

Host country opportunities, e.g. a higher expected rate of economic growth, a more stable economic environment and banks' inefficiency in the destination country, are also some of the main determinants of outward banking FDI (De Paula, 2002; Buch, 2000; Buch and DeLong, 2004). This may lead banks to seek opportunities in markets that have higher expected levels of growth and returns. Thus, international expansion to countries that offer opportunity for growth becomes imperative (Buch, 2000; Claessens et al., 1998; Tschoegl, 2001). Furthermore, tax, interest and exchange rate differentials between a bank's home and host countries may create opportunities for arbitrage and transfers which banks seek to exploit (Magri et al., 2005; Miller and Prakhe, 1998).

Expected economic growth in the foreign country may be high, offering profitable business opportunities which may be attractive, especially if there is strong competitive pressure in the host banking market (Magri et al., 2005; Focarelli and Pozzolo, 2001). Studies have emphasised the importance of economic opportunities in the host countries as a motivation for foreign bank entry (Cull and Peria, 2010). They constitute L-advantages that act as pull factors for foreign bank participation.
In this regard, ample evidence exists that foreign banks are drawn to larger, more vibrant economies with greater profit opportunities. Early studies in the USA and Japan demonstrated that foreign bank participation was linked to measures of real GNP and GNP per capita (Goldberg and Johnson, 1990; Yamori, 1998) and to more specific measures of banking sector activity such as the size and growth rate of the banking sector.

Higher economic growth abroad has attracted foreign banks to the USA, the UK and Germany (Moshirian, 2001; Magri et al., 2005; Goldberg and Johnson, 1990). Cross-country studies have also shown that foreign bank participation is positively related to the host country's GNP and level of financial development (Focarelli and Pozzolo, 2001). Similarly, research on German banks indicates that these banks are drawn to markets with high levels of GDP and GDP per capita (Buch and Lipponer, 2004).

(iii) Internationalization to seek efficiency

Banks sometimes possess qualities and assets that give them an advantage when operating in a foreign market, because it is able to operate more efficiently. These include the bank's size, degree of internationalization (DoI), distribution channel and risk diversification. These are O-advantages that the bank can exploit in foreign markets. A large size enables banks to translate their scale efficiencies to foreign markets at a relatively low cost and compete with local institutions even after taking into account the extra cost faced by foreign competitors. Tschoegl (2003) found that most of the largest subsidiaries of foreign banks in the USA were also among the largest banks in their domestic markets.

Foreign banks also seek efficiency by operating locally through owning a subsidiary (Tschoegl, 2000) but it has been argued by some scholars that a model based on subsidiaries with a retail focus is unlikely to benefit from large gains in efficiency, while a branch model would, if directed to wholesale or investment banking markets. A study by Claessens et al. (1998) showed that foreign banks are more efficient than domestic banks in emerging countries, though the opposite is true for developed countries.

(iv) Internationalization due to competitive pressure and oligopolistic reaction

The literature has found that the structure and competitiveness of home banking markets sometimes influence the conduct of its banks their performance and efficiency.

The degree of competition in a banking market has been assessed by the presence of regulations that encourage multiple activities by the banks and as well as contestability, which is the ease of entry by banks, including foreign banks (Florian, 2012). A competitive banking market means that some banks are squeezed out of the market and thus might embark on foreign market entry to seek better margins and profits elsewhere.

Studies have noted that banking markets become more competitive following deregulation and reforms that allow entry by foreign banks (Buch, 2000). Guillén and Tschoegl (1999) noted that increased domestic pressure following financial integration in the European Union was a major determinant of Spanish banks' internationalization in Latin America. Konopielko (1999) also found competitive pressure in home markets was a decisive factor for foreign banks in their entry into Central European countries.

Banks may also react to the actions of their competitors and follow them to markets, or avoid some markets that their competitors have already entered (Williams, 1997). This is the oligopolistic behaviour theory of FDI (Knickerbocker, 1973). Qian and Delios (2008) also noted the "push" effect of oligopolistic reaction in the international expansion of Japanese banks.

(v) Internationalization due to a favourable regulatory and institutional environment

When there are restrictions in the home country limiting a bank's home operations, growth or expansion, they might want to "escape" to expand internationally (Goldberg and Johanson, 1990; Goldberg and Saunders, 1980). In the same vein, a host country's openness to the establishment of new foreign branches and subsidiaries as well as tax incentives may also be important (Miller and Prakhe, 1998; Goldberg and Johanson, 1990; Cerrutti et al., 2007).

Focarelli and Pozzolo (2001) observed that banks prefer to acquire equity interests in other banks in countries where, either, regulatory restrictions on banking activities are low, or the market is less concentrated. In the same vein, Galindo et al. (2003) and Buch (2000) noted a co-relationship between the level of regulation and investment by international banks in a foreign banking market. Thus, lower regulatory barriers may facilitate foreign bank entry.

(vi) Internationalization to diversify risk

Aggarwal and Durnford (1989) and Berger and DeYoung (2001) noted that banks can diversify their income base by operating in a foreign country and obtain their gains in terms of their risk/return profile. There are a number of factors which determine how much banks diversify their income base when operating in a foreign country and these include business cycle, interest rate structure and exchange rate (De Paula, 2002).

(vii) Internationalization to access resources

Banks have been found to enter new markets, especially financial centres, to improve managerial and staff competence and learn of industry best practices. Merrett (2002) found this to be a factor of note in the expansion of Australian banks. In the same vein a bank's motivation to expand into new markets may be to access cheaper human resources.

(viii) Internationalization due to a common cultural background

A common cultural background may also facilitate bank international expansion into a particular geographic market (Buch, 2000; Guillén and Tschoegl, 1999; Galindo et al., 2003). The use of a common language may facilitate the transfer of know-how, the installation of same IT platforms as well as sharing marketing material across various subsidiaries. A common cultural background is also conducive to the exchange of employees between the parent bank and its subsidiary, thus accelerating the process of integration and the diffusion of the business culture of the bank. A common language and cultural background may lead to advantages in product differentiation, knowledge transfer, or even to reductions in the cost of capital.

Guillén and Tschoegl (1999) noted a significant effect of cultural proximity in their examination of Spanish bank expansion into Latin America. Cross-country evidence indicates that low "cultural distance" and geographic proximity between home and host countries and common language are associated with higher levels of foreign bank participation and a greater likelihood of acquisition by a foreign bank (Buch, 2003; Buch and DeLong, 2004). Galindo et al. (2003) found that differences in legal origin, language and culture affected the entry costs of banks in foreign markets.

2.3.2. Banks and theories of internationalization

Several theories used in explaining the internationalization of manufacturing and service firms have also been used as frameworks to explain banking internationalization. These theories include the eclectic theory (Dunning, 1980; Goldberg and Grosse, 1981; Gray and Gray, 1981), the RBV (Barney, 1991; Madhok, 1997; Guillén and Tschoegl, 1999), internalization theory (Buckley and Carson, 1976; Williams, 1997), TCA (Buch, 2003; Galindo et al., 2003) and the process internationalization theory (Johanson and Vahlne, 1977, Qian and Delios, 2008).

(i) The eclectic theory and the internationalization of banks

Theoretical works on multinational and cross-border banking have used the eclectic theory to explain patterns in the international involvement of banks (Dunning, 1980; Gray and Gray, 1981). The eclectic theory with its emphasis on O, L, and I-advantages, states that banks must possess some O-advantage, which enables it to profit from extending its operations into other national markets.
These O-advantages in banking are said to include: specialised banking services, credit-worthiness, reputation or efficiency, managerial skills, technological edge, size and economies of scale, and international experience (Miller and Prakhe, 1998; Sabi, 1988).

Cho (1986) proposed O-advantages to include: skilled personnel, managerial resources, favourable financial sources, widespread and efficient banking network, knowledge and experience in MNB operations, expertise in servicing a particular customer type, established credit-worthiness, differentiation of banking products and prestige. Cho (1986) also identified regulatory frameworks, effective interest rate differences, different economic situations, nationality of banks and socio-economic differences as creating L-advantage.

L-advantages for the host country also include regulations that make banking in the host country easier, less risky and less uncertain, (Buch 2000; Focarelli and Pozzolo, 2001) also market size (Buch, 2003; Buch and DeLong, 2004; Magri et al., 2005), profit opportunities (Magri et al., 2005) and level of governance (Outreville, 2007).

Cho (1986) stated that I-advantages include, availability and the cost of fund transfers within the MNB, efficient customer contracting, and transfer price manipulation which potentially reduces variability (Williams 1997; Konopielko, 1999).

Support for the eclectic theory in banking has been found in studies by Agarwal and Ramaswami (1992), Nigh et al. (1986), Sabi (1988) and Gulamhussen (2009), among others.

(ii) The resource-based view (RBV) and the internationalization of banks

The RBV supports the notion that a firm is able to leverage unique, valuable and rare resources for competitive advantage. These resources and capabilities include physical, human, and organizational assets that can be used to implement value creating resources for competitive advantage.

The organizational capabilities of the firm (Madhok, 1997), its brand name, reputation, size and organizational culture are also assets that can confer on firms competitive advantages (Ekeledo and Sivakumar, 2004). Banks are also said to possess intangible assets, routines and capabilities, managerial competence and differentiated products that give them a competitive advantage in foreign markets (Cho, 1986; Guillén and Tschoegl, 1999; Merrett, 2002).

Knowledge of the business culture and institutional framework in foreign markets gained by a bank’s staff from international operations also count as a bank’s assets that helps it to reduce the internal and external uncertainties in its foreign operations (Anderson and Gatignon, 1986; Zhao et al., 2004; Brouthers and Hennart, 2007).

This experiential knowledge helps banks to evaluate more accurately opportunities and risk in foreign markets (Erikson et al., 1997; Blomstermo et al. 2006). According to Tschoegl (1987) knowledge is an important part of multinational banking, especially knowledge of local conditions.

A bank's resources or O-advantage would also include its surplus managerial ability i.e. financial and human resource slack (Grubel, 1977; Tschoegl, 2001) differentiated products (Guillén and Tschoegl, 1999; Cho, 1986), superior technology and management expertise that allows it to compete in foreign markets at low cost. Other intangible assets that give banks competitive advantage in foreign markets include their reputation and ranking among industry peers (Qian and Delios, 2008).

Information on clients has been cited as another bank resource that confers on it a competitive advantage in foreign markets. This is used to explain the "follow-the-client hypothesis" (Goldberg and Saunders, 1980; Goldberg and Johnson, 1990). Information on the banking needs of clients that have embarked on internationalization creates information asymmetries which the bank can exploit in foreign markets (Grubel, 1977; Buch, 2002). Information on the credit-worthiness of clients, and the cost of monitoring and enforcing contracts and loans become valuable assets which also confer O-advantages on banks in foreign markets (Cull and Peria, 2010). All these constitute tacit knowledge possessed by the bank's staff as another resource. Jivalgi and Martin (2007, p394) posited that,

> "…capabilities, resource and skills profoundly influence a service firm's competitive and international advantage. By matching internal resources and complex bundles of skills with a changing external environment, service firms can achieve competitive advantage in foreign markets."

Thus, because of the uniqueness of its intangible resources - tacit knowledge, managerial competence, information on clients, and experiential knowledge of foreign markets - banks are said to prefer to internalize their operations in foreign markets (Grubel, 1977; Tschoegl 2003).

(iii) TCA and the internationalization of banks

A TCA approach to the internationalization of banks would be more focused on factors that hamper the bank's ability to mitigate the cost of information on borrowers and enforce contracts (Cull and Peria, 2010). These factors include environmental uncertainty brought about by macroeconomic instability and political risk as well as by regulatory, geographic, cultural and institutional distance (Galindo et al., 2003; Buch, 2000; Focarelli and Pozzolo, 2001; Tsai et al., 2009).

Galindo et al (2003) found that differences in legal origin, banking regulations and institutional variables such as differences in corruption levels, the rule of law and efficiency of the judiciary between a MNB's home and host countries increase entry costs for the banks.

Studies have shown that foreign banks' participation level is high where there is less corruption and greater adherence to the rule of law (Galindo et al., 2003; Focarelli and Pozzolo, 2001). Buch and DeLong (2004) found that, as countries increase transparency and supervision, their banks become more attractive targets for acquisition by foreign banks. Furthermore, Buch (2003) and Buch and DeLong (2004) also found that banks from developed countries tend to acquire banks from less developed countries. Canadian banks operating in the Caribbean identified common legal origin and political systems to be factors of importance in their entry mode choices (Létourneau and Heidrich, 2010).

Factors that reduce environmental uncertainties, like integration through culture and language spoken in the home and host countries, are found to be significant in the decision to invest abroad, notably, because they decrease information costs (Létourneau and Heidrich, 2010). The findings of Galindo et al. (2003) are consistent with this view and Tschoegl (2003) further re-enforces this idea by showing that this is the case for foreign bank operations through subsidiaries in the USA. Buch and Delong (2004) also corroborate the idea that protagonists in bank mergers tend to speak the same language.

Tsai et al. (2009), with data from the top 100 MNBs, link greater foreign bank participation to the existence and quality of credit reporting agencies in the host country. This is explained by reduced information asymmetry between the bank and its customers. Another means of coping with information asymmetry between lenders and borrowers is through *ex- post* enforcement in cases which require strong levels of legal and property rights (Cull and Peria, 2010).

Host country macroeconomic stability, political risks as well as governance levels, are other factors that affect a bank's choice of foreign market entry (Outreville, 2007; Buch, 2003; Buch and DeLong, 2004; Luiz and Charalambous, 2009).

The macroeconomic stability of a host country may be important for MNBs and is reflected by the stability of its currency, current account balance, real GDP growth rate and level of inflation. Political stability may also be vital in ensuring a stable economy and conditions that allow for growth and development. Aspects which may impact on perceived political stability include the frequency of changes in government, the method of electing governments, political tolerance, corruption levels and the presence of high quality, transparent regulatory frameworks and public institutions. Luiz and Charalambous (2009) found that South African financial firms are strongly influenced by political risk in their choice of locations for FDI in SSA.

Reduced trade barriers and local trade incentives, as well as integration thorough regional agreements, also make it easier for firms to enter foreign markets as this reduces entry and operating costs (Luiz and Charalambous 2009). A bank's home country's regional agreements can greatly facilitate movements of capital and information across borders.

(iv) The process theory and the internationalization of banks

Process theory states that increased knowledge of foreign markets allows firms to increase their commitment of resources to the market (Johanson and Vahlne, 1977). Interestingly, however, the process theory of internationalization has also been found to hold in the services sector (Tschoegl, 2001; Terpstra and Yu, 1988).
It may also be at the heart of the internationalization of banks that seem to enter foreign markets with low commitment modes of entry and increase their investment with increased knowledge of the market (Qian and Delios, 2008).

In a study of Estonian banks Sorg (2000, in Nikitin, 2002) found that Estonian banks entered Russian markets with low equity entry modes (representative offices) in order to learn and prepare the market, but increased their commitment with better knowledge of the market. Nikitin (2002) also noted the cautiousness of German banks in their entry into Russia. These banks only increased their stake after gaining market knowledge. Qian and Delios (2008) used the process internationalization model in their study of Japanese banks and found that capabilities or assets developed after the banks initial foreign entry affected further internationalization decisions by the banks.

Internationalization process theories also note the importance of psychic distance as a determinant of banks' foreign market choices and studies have shown that banks internationalize in foreign markets with low psychic distance (Buch, 2000; Guillén and Tschoegl, 1999).

2.3.3. Entry mode strategies of banks

Numerous studies have been conducted on the internationalization of banks and their market entry options (Goldberg and Saunders, 1981; Ball and Tschoegl, 1982; Cerrutti et al., 2007). However, researchers have noted that the existence of banking FDI requires host country acceptance of entry as well as a bank's desire to engage in the activity. Some countries limit foreign bank entries while others encourage participation (Jacobson and Tschoegl, 1997; Cerrutti et al., 2007).

At issue is the trade-off between local regulatory control and parent and home central bank support (Goldberg and Saunders, 1981, Konopielko, 1999). Rules may discriminate between countries of origin on the basis of treaties, considerations of reciprocity, or industry structure. Alternatively, a country may restrict its banks from expanding abroad (Tschoegl, 2001).

A bank's motivation for its presence abroad links with the product market it seeks to operate in, and considerations relating to a bank's strategic objective, host country regulations and transaction costs - including environmental uncertainty, costs of information, macroeconomic stability and political risk - all affect a bank's choice of mode of entry into a foreign market (Cull and Peria, 2010; Cerrutti et al., 2007).

Furthermore, banking activities are location-specific in the sense that presence in a foreign market is required for information production and signalling and to monitor domestic and local customers, reduce transaction cost and undertake portfolio optimization and asset transformation (Gulamhussen, 2009). The need to monitor customers more closely than can be done from headquarters provides an incentive to establish a direct overseas presence, even though these foreign offices will probably face a disadvantage relative to their local competitors in this area (Gulamhussen, 2009). The proximity to borrowers and markets facilitates the gathering of information required to establish markets (Hellman, 1996).

Scholars have indicated that banks enter new markets by all forms of entry mode choice, namely, JVs, strategic alliances, acquisitions and other equity ventures but Tschoegl (2001) observed that banking, being a service, creates licensing difficult because of the intangibility of some of the assets such as relationships with home-country firms. Exporting too is difficult because, unlike the case of goods, the production of services requires that producers be in contact with customers. In the same vein, Ekeledo and Sivakumar (2004), Kagut and Zander (1993) and Madhok (1998) have noted that firms internalize their operations in foreign markets because possession of tacit knowledge and firm-specific capabilities increase transaction costs with licensed third parties.

According to TCA, eclectic theory and the RBV, firms with these O-advantages, resources and capabilities would want to internalize and operate as a WOS (Anderson and Gatignon, 1986; Madhok, 1997; Ekeledo and Sivakumar, 2004).
Because banks usually trade and compete on the basis of their possession of these tangible and intangible assets, characteristics and other O- advantages, banks usually prefer high control modes in their foreign market entry (Williams, 1997; Qian and Delios, 2008; Goldberg and Johanson, 1990).

However, even where control modes are high, equity commitment modes vary and can be divided into low, medium and high equity commitment modes (Anderson and Gatignon, 1986).
Low level equity commitment includes representative offices and agencies, while medium level equity commitment modes of entry include JVs, strategic alliances and minority equity acquisitions of host country bank and wholly-owned branches. A high commitment mode of entry may involve the establishment of subsidiaries either through the majority equity acquisition of a local bank (brownfield acquisition) or the establishment of greenfield operations.

Scholars have noted that a bank’s characteristics, including its size, DoI and possession of tangible and intangible assets, also influence entry mode choice. Focarelli and Pozzolo (2001) found that the largest banks (by assets and number of employees) preferred market entry as subsidiaries. A bank’s size, it is argued, helps it absorb the risk of failure (Tschoegl, 2003). Furthermore, DoI, – geographic scope and number of years of operations, also affect entry mode choice, with banks having high DoI preferring to enter markets as subsidiaries. This has been attributed to reduced cost of entry from experiential and tacit knowledge gained by banks’ staffs (Erikson et al., 1997; Qian and Delios, 2008). In line with the arguments of Ekeledo and Sivakumar (2004), Qian and Delios, (2008) also found that banks possessing high levels of intangible assets preferred to enter new markets as subsidiaries.

A bank's business orientation, and the product market it seeks to trade in, also may influences market entry choice. Scholars have noted three product markets in banking namely, investment, wholesale and retail banking.
Banks seeking to trade in investment and wholesale product markets in the host country usually enter with low and medium equity commitment modes while those seeking to trade in the retail sector enter with high equity modes, e.g. subsidiaries (Goldberg and Johnson 1990; Tschoegl, 2001).

Laws governing banking also influence entry mode choice as home country laws apply for most low commitment modes of entry, (representative office and agency) while a high commitment mode of entry (subsidiary) subjects a bank to host country banking regulations (Tschoegl, 2001). Branches are subject to both the home and host country laws. Thus, a bank's entry mode choice can be influenced by the laws it chooses to be governed by.

Corporate tax, interest and exchange rate differentials between a bank's home and host country create opportunities for arbitrage and transfers (Miller and Prakhe, 1998; Cerrutti et al., 2007; Magri et al., 2005). Thus, banks would use branches (medium commitment entry mode) if it chooses to be subject to the regulations, accounting and tax codes of the home country and *vice versa*. Cerrutti et al. (2007) found that banks prefer branches when entering markets with high corporate tax rates.

Scholars have noted the role of host country conditions as a significant determinant of entry mode choice. Host country regulations, economic and political risk profile, size of banking market, level of governance, cultural and geographic distance, and legal origin, all influence the timing, pace and choice of market entry (Focarelli and Pozzolo, 2001; Buch, 2000; Buch and DeLong, 2004; Galindo et al., 2003; Outreville, 2007; Nacken et al., 2012).

Galindo et al (2003), Buch and Lipponer (2004) and Focarelli and Pozzolo (2001) found that common legal origin, cultural and geographic proximity, and other factors that reduce transaction and entry costs, also encouraged banks to enter foreign markets with high commitment modes (e.g. subsidiaries), as well as encouraging cross-border mergers and acquisitions (M&A's).

Studies have found that when TCs are increased in a foreign market due to environmental uncertainties banks enter with low commitment equity entry modes or probably adopt a "wait-and-see" attitude (Nikitin, 2002; Nacken et al., 2012). Environmental uncertainties are heightened by factors that include macroeconomic instability, political risks, low levels of development of institutions like credit rating agencies and the judiciary and weak rule-based governance.

But some other studies have noted that, with increased macroeconomic instability in the host country, banks would enter as high equity commitment subsidiaries in order to ring-fence the parent bank from the failures and liabilities of the subsidiary, since subsidiaries are subject to the laws of the host country (Cerrutti et al., 2007).

Focarelli and Pozzolo (2001) found that host countries with inefficient banking markets also create profit opportunities for banks with more developed banking markets, thus banks from larger more developed banking markets have been found to acquire banks in foreign markets with less developed banking markets (Buch and DeLong, 2004)

2.3.3.1 Greenfield versus acquired subsidiaries

Having chosen the subsidiary as an entry vehicle, a bank must make a choice between the acquisition of local banks and the establishment of a greenfield operation when entering a foreign market.

What determines whether a bank would start a *de novo* operation or acquire a local bank is varied and includes the availability of local banks for acquisition, the cost of available targets for acquisition, the degree of competition in the local banking sector as well as the customer focus of the bank.

Buch (2000) argues that, under perfect information about future business conditions, the two modes of entry should be the same, but that under uncertainty a greenfield investment is likely to entail higher cost.

Different banks from different countries use various ways to enter foreign markets. Guillén and Tschoegl (1999) noted that Spanish banks preferred entering Latin America mainly by acquisition (asset seeking strategy), just as Canadian and Australian banks preferred M&A (Merrrett, 2002). Nikitin (2002) noted that the most popular means by which banks enter the Russian market is by WOSs which are usually greenfield operations.

Some studies identify the advantages and disadvantages of acquisition versus the establishment of greenfield operations. For example, greenfield establishment avoids inheriting bad loans from the past and possible post-acquisition integration failures rooted in cross-cultural differences and technological mismatches. However, Pomerleano and Vojta (2001) argue that the organic growth of the greenfield investment takes time and involves risk related to unfamiliarity with local market conditions.

Moreover, entrants need to build up their reputation, whereas they can potentially benefit from existing customers' contracts when buying an existing bank (Buch, 2000). Additional advantages from acquisitions include access to valuable practices and local market knowledge as well as valuable information accumulated from past credit operations. However, researchers have found that with acquisitions, local practices can be difficult to absorb into the organisation and communication problems may arise between the acquirer and acquired firm due to cultural differences.

2.3.3.2 Organisational form of bank entry

There are four industry-specific entry modes (organisational forms) adopted by banks in their international market entry. Banks tend to enter markets with high levels of control, so their organizational forms represent varying levels of equity commitments in the host country. They include representative offices, agencies, branches and subsidiaries (Heinkel and Levi, 1992; Tschoegl, 2001).

This means a bank's representation in a foreign market can be a small scale office, such as a representative office or agency, medium scale such as a branch or a large scale office such as a subsidiary.

(i) The representative office

This is the most economical organisational form. It usually consists of a small commercial office designed to help the parent bank and its customers. It does not engage in attracting deposits and extending loans but generally is established to test the possibility of further involvement (Goldberg, 1992).

Their main motivation is to help the parent bank engage in merchant banking activities (Heinkel and Levi, 1992; Tschoegl, 2001).

(ii) Agencies

This constitutes a second organizational level of carrying out overseas operations. Agencies require higher investment and resources and imply a stronger commitment to the host country. Banks usually establish agencies in locations where a small scale of operations does not exist to justify the higher investments, but they allow a bank to get involved in export servicing and foreign exchange markets (Heinkel and Levi, 1992; Tschoegl, 2001).

(iii) Branches

A foreign branch represents a higher commitment form of entry mode and a foreign branch regularly participates in the host country's banking system. They are legally dependent on their headquarters. Decision making is not fully delegated to the foreign branch and the activities of branches are backed by the capital of the parent company. Foreign branches are subject to the banking supervision of both the home and host country (Tschoegl, 2001).

(iv) Subsidiaries

These are legally independent from their parent company and must back their activities with their own capital. They take part in the host country's banking system and are subject to the regulatory norms of the host authorities as they are incorporated locally.

Subsidiary investment is considered a financial investment by parent banks, while the other forms of entry are considered strategic (Heinkel and Levi, 1992).

Banks that wish to operate in the wholesale and corporate markets typically adopt the branch and agency form of entry. This is because branches and agencies are integral parts of the parent, and they trade on the basis of the parent's capital and reputation (Tschoegl, 2001).

Tschoegl (2001, p.5) went further to state that:

> "Generally, branches are cheaper to establish than a subsidiary because they require neither the set-up cost of incorporation nor the ongoing cost of reporting to the local registrar of companies. The primary responsibility for prudential supervision rests with the regulatory authorities in the parent bank's country".

2.4 Theories underlying this research

Since the various theories underlying international business research and their applicability to banking have been outlined, this thesis is guided by a synthesis of elements from the eclectic theory, TCA and the RBV. For example following many studies on MNBs, the thesis adopts the eclectic theory in examining how OLI advantages influenced Nigerian banks in their internationalization and market entry choice (Nigh et al., 1986; Sabi, 1988).

Furthermore, as has been noted in the literature, bank internationalization is influenced by factors that affect information, transaction and entry costs. Thus, TCA is also a factor of importance in banking internationalization research. Because of the nature of banking and the assets possessed by banks, they prefer using hierarchies in their foreign market entry.

Common legal origin, political and economic risk, cultural, geographic and institutional distance as well as differences in governance levels between host and home countries have been empirically shown to be factors that influence entry mode choice (Buch and Lipponer, 2004; Claessens and van Horen, 2008; Galindo et al., 2008). This thesis investigates what role these factors played in the internationalization and entry mode choice of Nigerian banks.

A bank's possession of resources and capabilities confer on it competitive advantage. These resources include managerial competence and tacit knowledge of business practices and institutional framework of foreign markets. Therefore, this thesis uses the RBV to investigate if possession of these resources and capabilities has helped Nigerian banks' internationalization (Ekeledo and Sivakumar, 2004; Madhok, 1997).

2.5. Conclusion

This chapter has reviewed the literature on the motivations and entry mode choices of MNCs, service firms and banks. The theories underlying internationalization have been examined and their application to banking has been explained. The next chapter will outline the framework of this thesis and, from the theories in the literature, propositions will be developed.

CHAPTER THREE

THEORETICAL FRAMEWORK AND PROPOSITIONS

Following the literature review of the previous chapter, this chapter seeks to draw up a theoretical framework from the literature and develop propositions that can be investigated and modified.

3.1 Theoretical framework and propositions

The theoretical framework and propositions are important aspects of case study research that are used in identifying the unit of analysis, boundary and scope of the research. The theory identifies the various concepts in the literature and propositions are declared statements about causation. The concepts, when developed for measurement, become variables with the causal (independent) and outcome (dependent) variables identified (Baxter and Jack, 2008).

A conceptual framework is a logically developed, described and elaborated network of associations among concepts that have been identified through theoretical and empirical research, in which the relationships between the independent and dependent concepts are elaborated, usually with an indication of whether the relationship would be positive or negative.

A conceptual framework indicates how a researcher perceives the phenomenon being investigated, and which factors influence the phenomena (Anderson, 1997). According to Miles and Huberman (1994, p18 in Baxter and Jack, 2008) a conceptual framework serves several purposes including (i) identifying who will be and will not be included in the study (ii) describing what relationships may be present based on logic, theory and/or experience; and (iii) providing the researcher with the opportunity to gather general constructs into intellectual bins. Baxter and Jack (2008) stated that the conceptual framework serves as an anchor for the study.

On the other hand, a theory is a systematically related set of statements, including some law-like generalizations that may (or may not) be empirically testable. According to Collinson and Rugman (2011, p30),

> "…the central part of academic research is to test and refine theory. In fact, established theories can be described as 'explanations of reality' that have been rigorously tested, such that most (social) scientists agree with them."

Collinson and Rugman (2011, p30) state further that "…theories are analytical tools for explaining as well as for understanding and making predictions, about a given subject." They went further to add that

> "…not only do theoretical frameworks make the world easier to understand, they provide structures for data-gathering, filtering, prioritizing, and analyzing information."

Welch et al. (2011) state that a theory is a form of explanation that offers a coherent, examined conceptualisation of a phenomenon. The purpose of the theory is to increase scientific understanding through a systemised structure capable of both explaining and predicting phenomena.

Propositions, on the other hand, are declarative statements of a concept which serve the purpose of identifying and defining the links between concepts. Propositions provide information regarding precision of definition, measurements and associations that are considered in the research (Yin, 2003).

Propositions are related to positivist case study research and contribute to the internal validity of the research. Yin (2003) advocates that propositions should be declared from the theory and investigated and (sometimes) falsified through empirical findings. On the other hand, Eisenhardt and Graebner (2007) argue that theories can be built from propositions exposed to empirical findings.

Theories and empirical findings explaining the internationalization of firms have sought to identify factors that influence the motivation and entry mode choice adopted by firms in their foreign market entries.

These theories have also been adopted in the study of bank internationalization. The timing, mode of entry and pace with which banks internationalize have become predominant themes in the literature. These theories include the eclectic theory, RBV, and TCA.

Eclectic theory emphasises a firm’s O and I-advantages, and a host country’s L-advantages. TCA emphasizes asset specificity, internal and external uncertainties and conditions that make banks choose hierarchies over markets in their market entry. RBV explains a firm’s possession of resources and capabilities that confer on it a competitive advantage; these include physical and human capital used in transactions.

This study uses a synthesis of these three theories, and empirical findings relating to them, from the literature. In this light, the two dependent variables, namely motivation and entry mode choice, will be the main focus of the following sections with the aim of identifying variables influencing banking internationalization and market entry choice.

3.2 Banks’ motivation for internationalization as a dependent variable

The internationalization of banking reflects strategic management decisions. As with all private firms, a bank’s main objective is assumed to be to maximise shareholder value (CGFS, 2010). Banks that are successful in doing so have (i) maximised profits, via either an efficient management of cost or an increased volume of activities, and (ii) chosen a level of leverage that is optimal from the standpoint of equity holders. Thus, these firm-level decisions may be seen as the proximate drivers of expansion (CGFS, 2010).

A bank's motivation to engage in multinational banking is contingent on a number of factors, and these include the bank's characteristics, e.g. size and international experience, desire to seek new markets and growth opportunities, a desire to follow its clients into new foreign markets as well as the characteristics of its managers and decision makers who may try to steer the bank towards a globalization strategy (Cerrutti et al., 2007; Cull and Peria, 2010; Berger et al., 2000).

Additionally, banks may also seek to exploit certain assets and O-advantages in foreign markets. These O-advantages include its brand name, reputation, managerial competence, technology, as well as its product offerings (Tschoegl, 2001; Guillén and Tschoegl, 1999; Cho, 1986).

Furthermore, home-country business conditions can also play a role in motivating banks to expand internationally (Miller and Prakhe, 1998; Guillén and Tschoegl, 1999; Goldberg and Johnson, 1990). In this regard, home country factors including regulatory laws, competition in the domestic market and the strategic actions of other banks or industry players can prompt an oligopolistic reaction by a bank's management (Williams, 1997).

3.2.1. Banks' characteristics, strategy and managerial intentionality

The literature has noted that banks may follow their home-country clients into foreign markets. This is both to defend against losing their clients to competitors (Williams, 2002) as well as to exploit information which they possess about clients' banking needs that create asymmetries of information for local competitors in foreign markets (Grubel, 1977). According to the eclectic theory, these asymmetries confer an O-advantage on the bank.

Erramilli (1990) noted that client-following is one of the main motivations leading to the internationalization of service firms; and evidence of this in banking has been found in several studies (Buch, 2000; Goldberg and Johnson, 1990; Miller and Prakhe, 1998; Moshirian, 2001; Yamori, 1998; Berger et al., 2003; Wezel, 2004). But some studies have also noted a lack of support for the follow-the-client theory in developing countries (Miller and Prakhe, 1998; Clark et al., 2003; Seth et al., 1998; Wezel, 2004).

Banks also develop products and processes, as well as managerial competence that make them cost effective and efficient. According to the RBV, a bank's adoption of technology, tacit knowledge possessed by its staff, geographic scope, size, DoI, brand name and reputation confers on it O-advantages that it seeks to exploit in foreign markets (Cho, 1986; Guillén and Tschoegl, 1999; Qian and Delios, 2008). These advantages also enable banks to reduce the cost of entry into new markets and compete with local banks, despite the liability of foreignness (Erikson et al., 1997; Zaheer, 1995).

As noted, a bank's size and DoI also influence its decision to internationalize. These, according to Dunning's eclectic theory constitute part of a bank's O-advantages. In a study of ten of the biggest subsidiaries of foreign owned banks in the USA, Tschoegl (2003) noted that six were the largest banks in their home markets. Focarelli and Pozzolo (2001) found a bank's size as a factor of note in cross-border M&A. Additionally, the DoI of a bank and its geographic scope can lead to better overall performance because internationalized banks can spread costs, allowing learning about domestic markets from international market experience and accessing factors of production at lower cost in addition to cross-subsidization (Erikson et al., 1997).

Another motivation for internationalization is a bank's desire to seek new markets with profit opportunities. High expected economic growth in the host country offers profitable business opportunities, especially if there is strong competitive pressure in the home banking market (Buch, 2000; Magri et al., 2005).

An attractive tax regime in the host country and possibilities for arbitrage from interest rates and foreign exchange differentials also make foreign expansion attractive (Cerrutti et al., 2007; Herrero and Simon, 2003). As explained by the eclectic theory, these are host country L-advantages. Studies that have found support for the profit seeking motives of banks include Buch (2000), Wezel (2004), Magri et al. (2005), and Moshirian (2001).

Also, managers and decision makers may have a strong desire to seek new international markets for profit and growth opportunities, react to actions by competitors (oligopolistic reaction) as well as exploit excess human and financial resource slack (Williams, 1997; Grubel, 1977). Thus, internationalization can be the deliberate strategic decision of a bank's management.

This so-called *managerial intentionality* has been noted by Guillén and Tschoegl, (1999) and Hutzschenreuter, et al. (2007). A bank's internationalization motivation may, thus, be to diversify risk, but also could include the manager's strong intention to grow and enter new markets, set new industry frontier aspirations, set stretch goals and exploit financial and human resources that are slack within the bank (Aggarwal and Durnford, 1989; Tschoegl, 2001; Hutzschenreuter et al., 2007).

Based on these arguments, this proposition is suggested:-

P_1 *A bank's desire to expand internationally will be influenced by a need to follow its clients into foreign markets, seek growth and profit opportunities, exploit its ownership advantage (O-advantage), and fulfil the aspirations of its managers.*

3.2.2. Home country regulations and domestic competition

Added to these bank-specific motives are those driven by home country conditions. Regulations governing banking sometimes limit or "push" banks to internationalize. Some banks must seek approval from home country regulators before opening operations in foreign markets (Cerrutti et al., 2007; Jacobson and Tschoegl, 1997).

Restrictive regulatory laws may also influence a bank's need to expand internationally. Goldberg and Saunders (1980) and Goldberg and Johnson (1990) found that restrictive regulations in the USA prompted US banks to expand internationally. Additionally, the establishment of subsidiaries abroad prior to 1999 allowed US banks to undertake investment banking activities that they could not undertake in the USA (Miller and Prakhe, 1998).

In explaining the internationalization of Norwegian banks, Jacobson and Tschoegl (1997) noted the role of home-country regulations in limiting, as well as facilitating, the expansion of Norwegian banks. Jacobson and Tschoegl (1997) stated that regulations influenced the "when, where, how and why" Norwegian banks expanded abroad.

It has also been noted that government policies, like deregulation, lead to more competitive banking markets and in the face of increased domestic competitive pressure banks may internationalize to seek better margins in new markets (Focarelli and Pozzolo, 2001; Magri et al., 2005). Guillén and Tschoegl (1999) found this to also be the case with Spanish banks that sought new markets in Latin America following increased domestic competitive pressure after financial integration in the European Union. Based on these arguments this proposition is suggested:-

P_2 *A bank's motivation to expand internationally will be influenced by home country regulations and competitive pressure in the domestic banking market.*

3.3 Entry mode choice as a dependent variable

A bank's entry into a foreign market is dependent on the bank's strategic motives, as well as home and host-country regulations (Cerrutti et al., 2007; Cull and Peria, 2010). Banks may consider a set of factors in the host country when planning an entry and these include the host-country's growth prospects as well as the state of its economic, political and legal developments.

According to the eclectic theory, these are host country L-advantages. Another set of factors considered relates to the characteristics of the host country that may give particular banks a competitive advantage by lowering information and transaction costs (TCA).

These include geographic distance, cultural distance, regional economic integration and trade incentives and similarities between the home and host-country institutional frameworks (CGFS, 2010; Luiz and Charalambous, 2009; Cerrutti, et al., 2007; Claessens and van Horen, 2008).

Scholars have indicated that firms enter new markets using all forms of entry mode, e.g. various non-equity modes such as exporting, licensing and franchising, JVs, strategic alliances, acquisitions and other equity ventures. However, because banks usually trade and compete on the basis of their possession of tangible and intangible assets, characteristics and other O- advantages, banks usually prefer high control modes in their foreign market entry (Goldberg and Johanson, 1990). So for most MNBs, market entry is in the form of FDI (Williams, 1997; Qian and Delios, 2008).

Furthermore, Madhok (1998) argued that firms internalize their operations in foreign markets because the possession of tacit knowledge and firm-specific capabilities increase transaction costs when licensed to third parties. Thus, according to TCA and the eclectic theory, the high asset specificity of banking and the O-advantages possessed by these banks prompt them to enter foreign markets mainly as FDI or hierarchies where control is high.

Nevertheless, even where control modes are high, equity commitment modes vary and can be divided into low, medium and high equity commitment modes (Anderson and Gatignon, 1986). Low level equity commitment includes representative offices and agencies, while medium level equity commitment modes of entry include JVs, strategic alliances and minority equity acquisitions of host country bank and wholly-owned branches. A high commitment mode of entry may involve the establishment of subsidiaries either through the majority equity acquisition of a local bank (brownfield acquisition) or establishment of greenfield operations (Buch 2003; Buch and DeLong, 2004; Cull and Peria, 2010).

3.3.1 Bank characteristics

A bank's entry mode choice into a foreign market has been found to be associated with the product market it seeks to serve as well as the characteristics of the bank (Cull and Peria, 2010).

The size and international experience of the bank have been found to influence levels of commitment of resource banks make in a new market. This is because larger banks are better able to absorb the cost and risks of internationalization. Focarelli and Pozzolo (2001) found that a bank's size was a significant factor in cross-border M&A activities.

As an O-advantage, DoI has been noted to help banks to reduce internal control, operational, information and transaction costs and to develop capabilities that can lead to further internationalization (Erikson et al., 1997; Qian and Delios, 2008). Thus, banks with more international experience tend to enter markets with high commitment modes.

A bank's business orientation also influences its entry mode choice. Banks compete in three product markets, namely, investment, wholesale and retail banking (Goldberg, 1992). The product market in which a bank seeks to compete influences its choice of entry mode (Cerrutti et al., 2007). A retail orientation could lead to high commitment entry mode through acquisition or establishment of a greenfield operation. Investment and wholesale banking orientation could lead to a medium commitment mode, e.g. the branch office.

3.3.2. Host country regulations

A bank's entry into a foreign market is dependent on the openness of the host country to banking FDI. So a host country's restriction or encouragement of foreign bank participation can influence entry mode choice (Buch, 2000; Buch and Lipponer, 2004; Cerrutti et al., 2007), together with the similarities or differences between these policies and regulations with that of a bank's home country. Studies have noted that banks from home countries with similar regulatory frameworks as the host country are more likely to choose a high commitment entry mode (Buch, 2000; Cerrutti et al., 2007; Claessens and van Horen, 2008).

3.3.3. Host country market attractiveness

Ample evidence exists that shows that foreign banks are drawn to larger, more vibrant economies with greater profit opportunities. According to the eclectic theory, these are host county L-advantages.

Magri et al. (2005) found this to be the case for foreign banks that entered Italy and Buch and Lipponer (2004) found this to be an attraction for German banks in their foreign market entries.

Profit opportunities offered by differentials in taxation, interest and exchange rates between a banks home and host-country may also influence entry mode choice. Cerrutti et al. (2007) found that banks enter with low equity commitments in countries with high taxation. Buch and Lipponer (2004), Buch (2000), Focarelli and Pozzolo (2001) found positive correlations between the size of a host country's banking market and increased M&A activities, as banks tend to use higher commitment modes of entry in large banking markets.

The state of the host-country banking system also creates conditions that act as "pull" factors for banks. Banks may seek to take advantage of inefficiencies in the host banking system because they possess O-advantages that they can exploit and gain a competitive advantage over local banks. Banks operating in countries where the banking sector is larger and more profitable should be able to export their superior skill and are therefore more likely to expand their activities abroad with high commitment entry modes (Focarelli and Pozzolo, 2001; Guillén and Tschoegl, 1999).

Cross-country evidence indicates that geographic proximity between home and host-country and common language are associated with higher levels of foreign bank participation and a greater likelihood of acquisition by a foreign bank (Buch and DeLong, 2004). Researchers have argued that high geographical distance increases transaction costs by impeding knowledge transfer, effective coordination and the monitoring of clients (Gulamhussen, 2009). In line with TCA, increased geographic distance may lead to low equity commitment modes of entry.

A common cultural background has been found to make a market attractive by reducing information and transaction costs. Studies have found that when a bank’s home and host countries are culturally proximate due to their sharing a common language, colonial heritage and legal origin, entry costs are reduced for the bank (Galindo et al., 2003; Buch and DeLong, 2004; Guillén and Tschoegl, 1999).

Thus banks are encouraged to enter culturally proximate markets with high commitment modes.

Studies have also noted increased cross-border M&A activities by banks following regional integration that eliminates trade barriers (Buch and DeLong, 2004).

Based on these arguments this proposition is suggested:-

P_3 *A bank’s choice of mode of entry into a foreign market will be influenced by the host country’s regulations and market attractiveness.*

3.3.4. Level of country risk and development of host country institutions and rule-based governance

Studies have noted that the level of environmental uncertainty in a host country affects the entry mode choices of firms in that country. Environmental uncertainty in a host country is measured by many factors including macroeconomic stability, political risk, level of development of institutions and rule-based governance in the country.

Following TCA, environmental uncertainty in a host country is increased by regulatory distance as well as macroeconomic instability and political risk (Buch and Lipponer, 2004; Cerrutti et al., 2007). Macroeconomic stability is a measure of a country’s economic strength or weakness, and is a function of variables such as GDP per capita, real GDP growth, annual inflation rate, budget balance and current account balance. Cerrutti et al. (2007) found that MNBs preferred to operate subsidiaries in countries with high macroeconomic instability.

Political risk is the degree of political stability in the host country, and is vital in ensuring a stable economy and conditions that allow for growth and development. Cerrutti et al. (2007) found that banks use medium commitment entry mode (branches) in countries with high political risk.

North (1991, p3) defined institutions as,

> "…humanly devised constraints that structure political, economic and social interactions and which provides the incentive structure of an economy."

According to North (1991) one can decompose national institutions into formal and informal, components. Formal institutions refer to the explicit and enforceable: property rights, rules, and laws. Informal institutions include social norms, beliefs, values, sanctions, taboos, customs, traditions and codes of conduct. Many scholars refer to these informal institutions, broadly, as national culture (Nacken 2012; Meyer, 2001).

Institutional factors are factors that diminish market attractiveness and institutional malfunctionings increase uncertainty in the host country (Meyer, 2001; Nacken, 2012). Low quality institutions are associated with poor economic performance, while corruption, lack of credit rating agencies, lack of rule of law and political risk increase transaction costs.

Scholars have categorised the extent of differences between a home country's economic, political, cultural and regulatory dimension as institutional distance (Schwens et al., 2011; Xu and Shenkar, 2002). These dimensions are factors that singularly or collectively influence the decision of a bank to enter a particular market due to transaction costs engendered by environmental uncertainties (Solomon and Wu, 2012). Galindo et al. (2003) found that the difference in legal origin, banking regulations and institutional variables such as differences in corruption, the rule of law and efficiency of the judiciary all add learning costs which influence entry mode.

Focarelli and Pozzolo (2001) adds that a stronger level of rule of law increases the probability of hosting foreign subsidiaries. Regulatory distance relates to the difference in the level of control and supervision between the host and home country regulators (Buch, 2003). Buch and DeLong (2004) contend that as countries increase transparency and enhance supervision; their banks become more attractive targets for acquisition.

Tsai et al. (2009) link greater foreign bank participation to the existence and quality of credit reporting agencies in the host country. Outreville (2007) found that the largest global financial firms sought markets with low governance risk. Nikitin (2002) found that banks seek low commitment entry modes into Russia because of a perceived lack of rule of law.

Despite studies indicating banks' cautious (low commitment) entries into markets with poor institutional frameworks, researchers have argued that the success with which a bank incorporates a host country's characteristics into its business model determines its comparative advantage *vis-à-vis* other internationally active banks (CGFS, 2010). This so-called strategy of *local isomorphism* helps foreign banks reduce the liability of foreignness (Zaheer, 1995).

Local isomorphism has been noted by Solomon and Wu (2012) who found from a study of 158 foreign bank subsidiaries in the USA that firms choose a higher level of local isomorphism as cultural, economic and regulatory distance between the home and host countries increase. Claessens and van Horen, (2008) reported that banks from home countries with similar institutional frameworks to the host country possess a comparative advantage relative to other foreign bank participants.

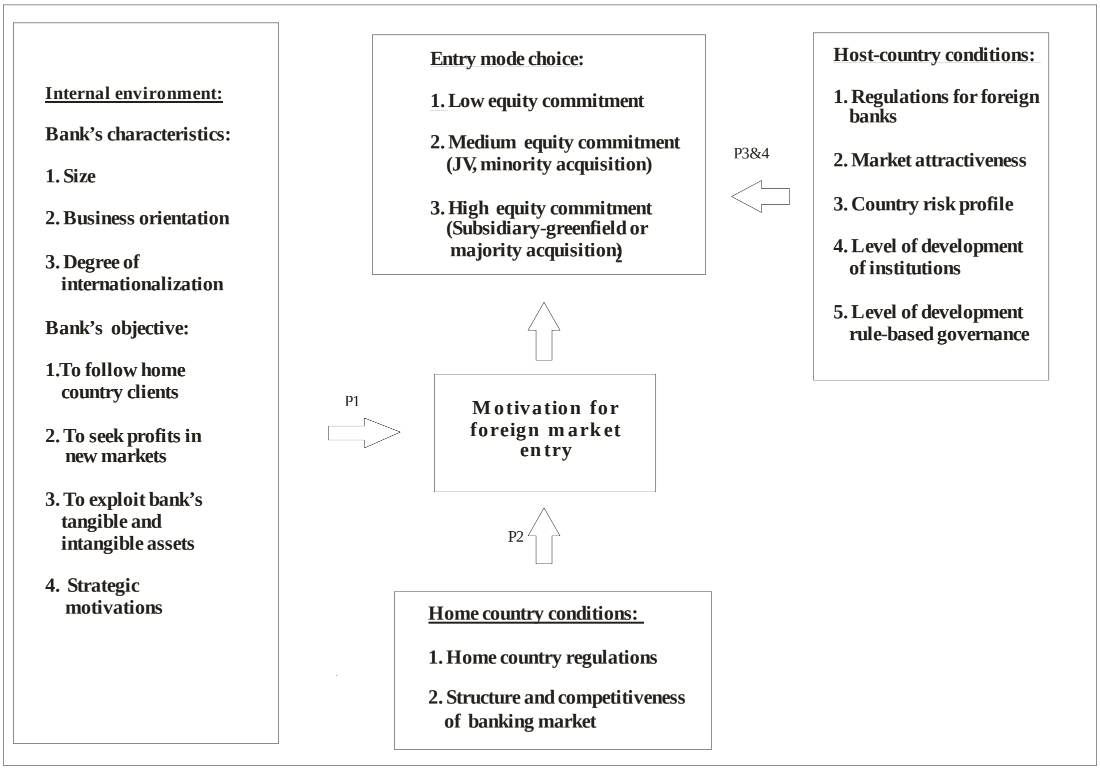
The measure of the difference in institutional distance between a bank's home and host-countries has been empirically found to be influential in determining a banks entry mode choice and timing and pace (Buch and DeLong, 2004; 2000: Claessens and van Horen, 2008). Usually, low institutional distance leads to high commitment entry modes while high institutional distance leads banks to opt for low entry modes.

Based on these arguments this proposition is suggested:-

P 4 *A bank's choice of mode of entry into a foreign market will be influenced by the level of environmental uncertainty in the host country.*

3.4. Conclusions

Figure 3.1 Framework of the research with propositions



This chapter has presented a theoretical framework and developed propositions from those theories. The eclectic theory, TCA and RBV have been the theories that guided the search for concepts and the propositions. The concepts, variables and their connections have been identified, and the linkages between the dependent variables established.

The next chapter will explain the choice of methodology to be adopted for the investigation of these propositions.

CHAPTER FOUR

RESEARCH METHODOLOGY

After the review of the literature and the identification of the theories from which propositions were drawn, this chapter presents the research philosophy, approach, design and methods used in addressing the research questions. The next chapter describes data collection.

There are four main sections to this chapter. These are the research philosophy, research approaches, research design and strategies adopted to ensure rigour in the case study research.

4.1. Introduction

This case study research seeks to address its research questions and has developed some propositions which the research would seek to investigate, falsify, though of course never verify.

Research Questions:

The questions which this research addresses are:

What factors influence the;

(a) international expansion decisions, and

(b) entry mode choices of Nigerian banks in foreign markets?

Propositions:

After a review of the literature, theories and empirical findings from the literature, the following propositions were suggested.

P_1 *A bank's desire to expand internationally will be influenced by a need to follow its clients into foreign markets, seek growth and profit opportunities, exploit its O-advantage, and fulfil the strategic aspirations of its managers.*

P_2 *A bank's motivation to expand internationally will be influenced by home country regulations and competitive pressure in the domestic banking market.*

P_3 *A bank's choice of mode of entry into foreign market will be influenced by the host country's regulations and market attractiveness.*

P_4 *A bank's choice of mode of entry into a foreign market will be influenced by the level of environmental uncertainty in the host country.*

4.2. Research philosophy

For this study, selecting an overall research philosophy required a choice between three primary alternatives – the positivist, interpretivist and realist paradigms as they apply to the social sciences.

Research paradigm

A research paradigm has three dimensions which according to Shanks (2002) seek answers to the following questions;

(i) what is the form and nature of reality? - the ontological question.

(ii) What is the relationship between the researcher and what can be known? - the epistemological question and

(iii) How does the researcher find out whatever they believe can be known? – the methodological question.

Guba and Lincorn, (1995) define the research paradigm as a basic belief system or world view that guides the investigator, not only in choices of method, but in ontologically and epistemologically fundamental ways.

Ontology has also been described as a researcher's world view, on the nature of reality and specifically, if reality is objective and exists independently of our knowledge, or if reality is subjective and created in the mind. It is assumed that all researchers have a way of viewing reality and this affects their view of, and their relationship with, what can be known.

The epistemological question concerns what can be known by a researcher. Epistemology examines the character and basis of knowledge or the characteristics of the relationships between reality and the researcher. Blaikie (1993) describes epistemology as the theory or science of method or grounds of knowledge.

It involves a set of assumptions about the ways it is possible to gain knowledge of reality, how what exists may be known, what can be known and what criteria must be satisfied in order to be described as knowledge.

The methodological question seeks to address how a researcher would get the answers it seeks to a research question. It is influenced by ontological and epistemological orientation.

Positivism

The positivist paradigm is based on the philosophical ideas that observation and reason are the best means of understanding human behaviour.

At an ontological level, positivism assumes that reality is objectively given and is measureable using properties which are independent of researchers and their instruments; in other words, knowledge is objective and quantifiable.

Positivism is based upon values of reason, truth and validity and there is a focus purely on facts, gathered through surveys or experiments. In the positivist paradigm, the object of study is independent of the researcher's values. Knowledge is discovered and verified through direct observation or measurements of phenomena.

Saunders et al. (2009) describe positivism as the epistemological position that works with an observable social reality with the emphasis on a highly structured methodology to facilitate replication, while Bryman and Bell (2007) state that positivism is the position that is associated with imitating the natural sciences for the study of social reality.

Knowledge is arrived at through the gathering of facts and should be value-free, objective and independent of social actors.

For the positivist epistemology, science is seen as the way to understand the world so that it may be predicted and controlled. The world and the universe are deterministic and they operate by the laws of cause and effect that are discernible if we apply the unique approach of the scientific method. Deductive reasoning is used to postulate theories that can be tested.

Methodologically, the task of the positivist is to collect facts and measurements to understand how certain patterns occur. Positivism often aims at measuring the variables of social phenomena through quantification, though qualitative information may also be used. Positivism strongly maintains that the methodological procedures of the natural sciences are adaptable to social sciences (Saunders et al. 2009).

Interpretivism

In contrast, interpretivism is the philosophical belief that reality consists of people's subjective experience of the external world. Thus, within the interpretivist paradigm, researchers' values influence their perception of reality and interpretivists believe that there can be multiple realities from multiple assumptions. In other words, research in the interpretivist view is not value-free (Guba and Lincorn, 1995).

Gephart (2004) states that interpretivists assume that knowledge and meaning are acts of interpretation; hence there is no objective knowledge which is independent of the thinking and reasoning of humans.

Bryman and Bell (2007) explain that critics of the positivist approach reject the applicability of the methods of the natural sciences to the study of social reality because of the difficulties in disentangling the data. To that end, the interpretivists hold the ontological position that there are multiple realities that are socially constructed.

Bryman and Bell (2007, p17) explain that interpretivists take the view that,

> "…the subject matter of social sciences - people and their institutions - is fundamentally different from that of the natural sciences. The study of the social world, therefore, requires a different logic of research procedure".

Furthermore, Saunders et al. (2009), add that the focus of the interpretivists is an understanding of the meanings and interpretation of social actors and to understand the world from their point of view, thus their research is highly contextual and is not widely generalisible.

Regarding methodology, interpretivists attempt to derive their constructs from the field by in-depth examination of the phenomenon of interest and by seeking a rich understanding of the subject from the point of view of participants through qualitative methods, e.g. in-depth interviews and ethnographic research (Saunders et al. 2009).

Realism

Borne out of the frustration that positivism was over-deterministic and interpretivism too relativist and highly contextual, realism takes aspects from both the positivist and interpretative positions. Ontologically, it agrees with the positivist position that reality exists independent of human consciousness, but like the interpretative stance, it holds that knowledge is socially constructed (Saunders et al., 2009). Thus, while positivism concerns a single concrete reality and interpretivism multiple perceptions of reality, realism concerns multiple realities, each a special case in a unique context.

Crucially, realism posits that reality is influenced by human systems and conditioning and thus a researcher is value-aware (Denzin and Lincoln, 2005). So epistemologically, rather than being supposedly value-free, as in the positivist paradigm, or value-laden as in the interpretivist paradigm, realism is value-cognizant: conscious of the values of human systems and the researcher.

So realists assert that real objects are subject to value-laden observations. For realists, the knowledge of reality is a result of social conditioning and thus, cannot be understood independent of the social actors involved in the knowledge derivation process.

According to Blaikie (1993), whilst realism is concerned with what kinds of things there are, and how these things behave, it accepts that reality may exist in spite of science or observations and so there is validity in recognising realities that are simply claimed to exist. However, realists would insist that an understanding of these claimed realities may be restricted to a particular context, and that unique contexts prevent generalisible conclusions.

Methodologically, realism embraces both qualitative and quantitative research methods (mixed methods). Methods such as case studies and unstructured or semi-structured in-depth interviews are acceptable and appropriate within the paradigm, as are statistical analyses, such as those derived from structural equation modelling and other techniques (Saunders et al., 2009).

This thesis will adopt a positivist paradigm that tends toward realism in seeking answers to the research questions. Taking the view of Yin (2003), the thesis has so far identified causal relationships, specified variables from the literature and declared propositions. Methodologically, it will adopt a mixed quantitative and qualitative method and a case study approach, which are closely associated with realism.

In the positivist tradition, this thesis has identified *a priori* theory from the literature and has also proposed independent and dependent variables influencing the phenomena under study.
It seeks to understand many factors that influence the phenomenon under study, but notes contextual factors that can make the research outcome idiosyncratic.

Empirical data from the research will be matched and compared with the theories in the literature as stated in the developed propositions. Thus, the descriptive and explanatory aim of the research, which no doubt will take into account the participants and researcher’s awareness and knowledge of contextual realities, takes the research towards the realms of realism.

4.3 Research method

The research method is a strategy of enquiry, which moves from the underlying assumptions to research design, and data collection. Although there are other distinctions in research modes, the most common classification of research methods is into the qualitative and quantitative. According to Saunders et al. (2009), a researcher’s choice of research strategy will be guided by the research question(s) and objective, and whether the strategy will aid the attainment of the objectives.

4.3.1. Qualitative and quantitative research approaches

At one level the terms qualitative and quantitative refer to distinctions about the nature of knowledge: how one understands the world and the ultimate purpose of the research. On another level, the terms refer to research methods, i.e. the way in which data are collected and analysed, and the type of generalization and representations derived from the work.

The quantitative research method attempts to maximise objectivity, replicability, and generalizability of findings, and is typically applied to predictions. Integral to the approach is the expectation that researchers will set aside their experiences, perceptions and biases to ensure objectivity in the conduct of the study and the conclusions that are drawn (Harwell, 2011).
It is borne out of the positivist ontology with states that reality is objective and value-free. Key features of much quantitative study are the use of instruments such as tests or surveys to collect data and a reliance on probability theory to test statistical hypotheses (Harwell, 2011).

On the other hand, Denzin and Lincoln, (2005, p5, in Harwell, 2011) describe qualitative research as,

> "…a situated activity that locates the observer in the world. It consists of a set of interpretive material practices that make the world visible. These practices transform the world. They turn the world into a series of representations, including field notes, interview, conversation, photographs, recordings, and memos to the self. At this level, qualitative research involves an interpretive, naturalistic approach to the world. This means that qualitative researchers study things in their natural setting, attempting to make sense of, or interpret, phenomena in terms of the meaning of the meanings people bring to it."

Generally, qualitative research is based on the interpretative ontology that posits that there is no objective reality. Rather, there are multiple realities constructed by human beings who experience a phenomenon of interest.

However, it has been noted that research methodologies and paradigms are to some extent inter independent, and they can be used by researchers to complement each other. Qualitative research may or may not be interpretive, depending upon the underlying philosophical assumptions of the researcher. Qualitative research can also be positivist, interpretive or critical (Dubé and Paré, 2003).

Qualitative research is usually described as allowing a detailed exploration of a topic of interest in which information is collected through case studies, ethnographic work, interview and so on (Harwell, 2011).
Bryman and Bell (2007) explain quantitative research to be the collection and analysis of data that embodies a view of social reality as an external and objective reality. Qualitative data on the other hand emphasises the use of words and the ways that individuals interpret their social world (Harwell, 2011).

Gephart (2004, p 455) pointed out that one reason why qualitative research is important for management scholarship is that,

> "…it can provide thick, detailed description of actual action in real-life context."

An obvious basic distinction between qualitative and qualitative research is the form of data collection, analysis and presentation. While quantitative research often presents statistical results represented by numerical or statistical data, qualitative research presents data as descriptive narration with words and attempts to understand phenomena in "natural settings" (Bryman and Bell, 2007).

This thesis will adopt a mixed quantitative and qualitative research approach to study the research question. The thesis seeks a rich and deep understanding of the factors that influence the perceptions and decisions of participants in the phenomenon under study – the international expansion of Nigerian banks. This would best be addressed by a mixed research approach.

4.4 Research design

A research design provides the overall guidance for the collection and analysis of data for a study. It is a critical link between the theory and argument that informs the research and the empirical data collected. Yin (2003, p19) contends that,

> "…colloquially a research design is an action plan for getting from here to there, where 'here' may be defined as the initial set of questions to be answered and 'there' is some set of (conclusions) answers."

A choice of research design reflects a decision about priority being given to a range of dimensions of the research process (Bryman and Bell, 2007, p40). Saunders (2009) describes the research design as a blueprint that enables a researcher to find answers to questions being studied for any project, and along with a clear research plan it identifies constraints and ethical issues that research inevitably encounters and must take into account.

Yin (2003, p21-28) identifies the following five components of a research design as being especially important for case studies:

- A study's question;
- Its propositions if any;
- Its unit(s) of analysis;
- The logic linking the data to the propositions;
- The criteria for interpreting the findings

4.4.1. The case study as research approach

The case study approach is now widely used in the social sciences, and there is growing confidence in its applicability as a rigorous research strategy in its own right (Welch et al., 2011).

Yin (2003, p13) defined the case study as

> "…an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident."

Piekkari et al. (2009, p569) defined the case study as,

> "… a research strategy that examines, through the use of a variety of data sources, a phenomenon in the naturalistic context, with the purpose of 'confronting' theory with the empirical world".

Lacono (2011, p58) points out that,

> "…case studies are most commonly qualitative, and this places a heavy emphasis on the individual contribution and choices of the researcher. The researcher seeks an in-depth understanding of the interaction between phenomenon and context."

Key decisions of the researcher include the range and type of data, the selection and number of cases and the type of analysis to be carried out.

According to Shanks (2002) the case study can be used to achieve various aims: to provide a description of phenomena, develop theory, and test theory, though the latter function is controversial. A case study may or may not be interpretive, depending upon the underlying philosophical assumptions of the researcher. Indeed, case study research can be quantitative, positivist, interpretive or critical (Dubé and Paré, 2003).

4.4.1.1. Justification for the adoption of the case study method

There is considerable support for the approach within international business (Welch et al., 2011). Dubé and Paré (2003, p 598) stated that

> "…case research in its versatility, can be used with any philosophical perspective, be it positivist, interpretivist or critical."

Dubé and Paré (2003, p598) further noted that it typically combines several qualitative data collection methods such as interviews, documentations and observations, but can also include quantitative data, e.g. time series data collected through questionnaires.

Yin (2003) stated that a case study design should be considered when (a) the focus of the study is to answer "how" and "why" questions; (b) one cannot manipulate the behaviour of those involved in the study; (c) one may want to cover contextual conditions believed to be relevant to the phenomenon under study; or (d) the boundaries are not clear between the phenomenon and context.

According to Baxter and Jack (2008) once a researcher has determined that the research question is best answered using a qualitative case study, the next consideration should be what type of case study will be conducted. The types of case study include explanatory, explorative, descriptive, multi-case studies, intrinsic, instrumental and collective.

Piekkari et al. (2009) point out that,

> "…the positivist tradition for case studies favours a design logic in which field work is preceded by the careful development of a blueprint".

Yin, (2003, p21) adds that the positivist case study anchors the study in existing literature, specifies the research question, unit of analysis, and nature of the desired theoretical contribution, and may even include the *a priori* specification of constructs.

Yin (2003) argues that case studies are used for analytical generalisation, where the researcher's aim is to generalise a particular set of results to some broader theoretical propositions. The aim of this research and the cases presented in this thesis conform to Yin's definition. The aim is to investigate a contemporary phenomenon in a real-life setting and the focus is on organisational and managerial issues (Saunders, 2009).

This thesis believes that the phenomenon under study – the internationalization of Nigerian banks - meets the above criteria and the case study approach is justified. Above all, the case study approach is used here because there is no precise information on the population of foreign entries by Nigerian banks from which to obtain rigorous samples. Added to that, there are probably too few foreign entries to facilitate hypothesis testing.

4.4.1.2 Unit of analysis and boundaries of research

The unit of analysis is fundamental in defining the case to be studied (Yin, 2003). A clear definition of the unit of analysis is necessary to firmly bind the subsequent study, develop relevant and precise prepositions and guide the data collection.

Yin (2003) argues that poorly defined units of analysis typically lead to results that lack rigour and are more descriptive than explanatory. Units of analysis could include: individuals, groups, institutions; decisions, policy or events.

The phenomenon that this research seeks to study is the internationalization of Nigerian banks and the factors that influence it.

4.4.1.3 Selection of cases

Selection of cases represents another important aspect of case study research (Yin, 2009; Eisenhardt, 1989). Yin (2003) argues that the need for appropriate selection criteria is not different from that of natural science. According to Eisenhardt (1989) cases may be chosen because they extend emergent theory, fill theoretical categories, provide examples of polar types, or replicate previously selected cases. Dubé and Paré (2003) contend that case selection must be done in order to maximize what can be learned in the period of time of the study.

4.4.1.4 Single or multiple cases

Unlike statistical sampling methods, there is no single rule concerning the minimum number of cases to be selected for a given research project. Selection of the number of cases is necessarily influenced by the study aims, the research question to be investigated and the level of confidence (theoretical versus statistical) that is required in the findings.

Yin (2003) points out that single cases are useful when there is some critical case against which to investigate a well-specified proposition or where an extreme or unique case is the main focus of interest. Multiple case designs on the other hand are more common and are generally used to replicate findings or support/ theoretical generalisations.

As a general rule, the number of cases is a matter of discretion and judgmental choice, it depends upon the certainty that a researcher wants to have about the multiple-case results (Yin, 2009; Eisenhardt, 1989). Yet both Yin (2003) and Eisenhardt (1989) expressed a preference for multiple case studies because of their strength in providing analytical generalization. According to Eisenhardt (1989) researchers should stop adding cases when theoretical saturation has been reached. Yin (2003, p47) describes how multiple case studies can be used to either, (a) predict similar results (literal replication) or (b) predict contrasting results but for predictable reasons (theoretical replication)

4.4.2 Data collection

Data collection within the case study (the subject of Chapter 5 below) starts with the sampling of the cases for the research, the choice is between probability and non-probability sampling. Data is collected using quantitative or qualitative data gathering instruments. Specifications of the data to be gathered are made and their definitions, sources and measures identified. The gathered data is then analysed using qualitative and quantitative means. This thesis will use a Likert scale questionnaire and interviews to gather primary data and secondary data would be gathered from multiple sources.

4.4.2.1 Case study sampling

A basic choice in formulating the approach to data sampling exists between probability sampling (which includes simple random sampling; systematic sampling; stratified random sampling, and cluster sampling) and non-probability sampling. Here, given the nature of the research question, it becomes clear that non–probability sampling methods would be appropriate for this research study.

Sampling for case study research in management and international business has been predominantly non-probabilistic (Yang et al., 2006; Welch et al., 2011). Although Saunders et al. (2009, p233) argue for the use of probability sampling for positivist research and point out the disadvantages of using non-probability sampling, they concede that,

> "…within some business research, such as market survey and case study, this may either not be possible (as you do not have a sample frame) or appropriate to answering your research question".

Non-probability sampling provides a range of alternative techniques to select samples based on subjective judgment. The literature lists non-probability sampling methods to include quota sampling, purposive sampling, snowball sampling, self-selection sampling and convenience sampling.

This thesis will use purposive sampling to select the banks that will make up the cases to be studied. Snowball sampling will be used to identify respondents for the questionnaire and bank executives to interview.

4.4.2.2 Instrument for collecting qualitative and quantitative data

A wide collection of data collection instruments are available under the case study approach and Eisenhardt (1989) notes that case studies do not imply the use of a particular type of evidence and they can be done with using either quantitative or qualitative evidence. Yin (2003) states that both qualitative data (concerned with words and meanings) and quantitative data (concerned with numbers and measurements) can be collected and analysed using the case study approach.

Kohlbacher (2006) contends that, while quantitative data often appears in case studies, qualitative data predominates. Even then, verbal qualitative information can be converted to quantitative data through the use of familiar devices such as Likert scales, used here.

According to Yin (2003, p83-96) there are six possible sources of evidence for case studies. These include the use of questionnaire; interviews (in a variety of format including unstructured, structured and semi-structured method); observation, gathering of documentation and artefacts. Yin (2003) contends that the benefits from these six sources can be maximised if three principles are followed:

- Use of multiple sources of evidence;
- Creation of case study database;
- Maintaining a chain of evidence.

While many studies successfully utilize one method, combining methods, an approach defined as triangulation, can be a useful research option. The aim of triangulation is to seek to corroborate one source or method with another and to enhance quality data. Yin, (2003, p98) stated that the most important advantage of combining different data sources is the development of converging lines of inquiry, arguing further that multiple data sources allow for triangulation and enhance construct validity.

The literature notes four forms of triangulation: data triangulation, (collected from different data at different times); methodological triangulation (combining different methods); theoretical triangulation (the application of theory from different discipline); and triangulation by investigators (the use of multiple independent investigators).

This thesis used data, methodological and theoretical triangulation as a strategy whereby multiple perspectives of the same phenomena are considered, using qualitative and quantitative methods to investigate the propositions that have been developed from multiple theories. Theoretically, this thesis was guided by a synthesis of elements from the eclectic theory, TCA and the RBV. Quantitative and qualitative methods would be used to gather and analyse data, while evidence will be gathered using primary and secondary data sources. Primary data will be obtained through Likert scale questionnaires and interviews while secondary data would be collected from a variety of sources.

(i) Primary data

(i) Likert scale questionnaire

A Likert scale questionnaire was used to collect primary data from the research participants. The questionnaire was developed and forwarded to each research participants in advance (see Appendix B)

(ii) Interviews

Interviews are an important way of collecting empirical data (Yin, 2003; Bryman and Bell, 2007). Knave (1983, p174 in King, 2004) defines qualitative research interview as "…an interview whose purpose is to gather description of the life world of the interviewee with respect to interpretation of the meaning of the described phenomena. King (2004) notes that the goal of any qualitative research interview is to see the research topic from the perspective of the interviewee, and to understand "how" and "why" they came to this perspective.

Knave (1983, p176 in King 2004) describes the characteristics of a qualitative interview as having a "…low degree of structure imposed by the interviewer, a preponderance of open questions; and a focus on specific situation and action sequences in the world of the interviewee". King (2004) points out that a key aspect of interviews is the relationship between the interviewer and the interviewee. With quantitative research interviews, the interviewee is seen as a "subject" in the research while in qualitative research interview, the interviewee is seen as a "participant" in the research actively shaping the course of the interview rather than passively responding to interviewers' pre-set questions (King, 2004).

Significantly, interviewing is a particularly efficient means of collecting data when the research design involves an analysis of people's motivation and opinion. According to Eisenhardt and Graebner (2007, p28) a key approach is using numerous and highly knowledgeable informants who view the focal phenomena from diverse perspectives. These informants include organisational actors from different hierarchical levels and functional areas.

Interviews can be structured, semi-structured or unstructured. With structured interviews, the interviewer uses a set of predetermined questions which are short, clearly worded and responses may be presented in comparative, tabular form. In most cases, these questions are closed and therefore require precise answers in the form of a set of options read out or presented on paper.

The semi-structured method of interview has both structured and unstructured questions (see Appendix B). As the interview progresses, the interviewees are given the opportunity to elaborate or provide more relevant information if they opt to do so in order to fully cover the research question. In order to be consistent with all participants, the interviewer has a set of pre-planned core questions for guidance such that the same areas are covered with each interviewee. This is justified in multi-case study research as it is an appropriate level of structure to ensure cross-case compatibility (Bryman and Bell, 2007).

(ii) Secondary sources of data

Saunders et al. (2009, p269) examine the use of secondary data in research and comments that,

> "…often it can be useful to compare data you have collected with secondary data."

As noted previously, within a broad qualitative approach to research, triangulation of data sources can provide a richness of data that can give a case study additional depth. This means that a researcher can place research findings within a more general context or, alternatively triangulate findings. This thesis triangulated secondary data gathered from multiple sources with the primary responses of managers got from the Likert scale questionnaire and compared the evidence gathered with the stated propositions.

4.4.2.3. Variables, specification and measurements

The need to define, specify and state data sources is an important part of case study research.

Benbasat et al. (1987, p381) state that,

> "…a clear description of data sources and the way they contribute to the findings of the research is an important aspect of the reliability and validity of findings".

Yin (2003) also advocates the specification of data and its sources.

Data relating to the determinants of internationalization and entry mode choices of banks, especially as regards the dependent and independent variables, have been identified and are explained further in Chapter 5.

4.4.3. Data analysis

In qualitative research data collection and analysis, interpretation and reporting are often carried out in parallel, and the results of one activity can alter the direction of others (Eisenhardt 1989). Yin (2003) advocates that as in natural experiments, a case study can adopt procedures such as replication logic, pattern matching and time series analysis which are adaptations of experimental techniques.

Yin (2003, p109) states that data analysis consist of

> "…examining, categorising, tabulating, testing or otherwise recombining both quantitative and qualitative evidence to address the initial propositions of the study."

According to Yin (2003, p111-115) there are three general analytical strategies for analysing case study evidence:

- Relying on theoretical propositions;
- Thinking about rival explanations;
- Developing a case description.

He contends that any of these strategies can be used in practicing five specific techniques for analysing case; pattern matching, explanation building, time series analysis, logic models and cross-case synthesis. Yin (2003) advocates the use of data displays including tables, graphs and charts in data analysis.

In general, data analysis involves searching for patterns in the data. Pattern matching logic compares an empirically-based pattern with a predicted one (or with several alternative predictions). If the patterns coincide, the results can help a case study to strengthen its internal validity. If the case study is an explanatory one, the patterns may be related to the dependent or the independent variables of the study (or both). If the case study is a descriptive one, pattern matching is still relevant, as long as the predicted pattern of specific variables is defined prior to data collection (Trochim, 1989).

This thesis will start its data analysis with a clear elucidation of the analysis process (Dubé and Paré, 2003). This thesis is mainly an explanatory one, thus independent and dependent variables have been identified and propositions stated, as suggested by Yin (2003).

Ordinal primary data will be subjected to statistical transformation into interval data from which statistical inference can be drawn.

Checking the findings with case study participants can be a valued part of the analysis and enhance validity. Yin (2003) recommends that data is referenced to the existing literature in order to compare and contrast empirical findings with the literature (pattern matching) and where necessary falsify propositions. This recommendation will be adopted by this thesis

Additionally, this thesis will adopt Yin's recommendations on data analysis regarding supporting or falsifying the stated propositions by using explanation building and cross-case analysis.

4.4.4. Reporting the case study

According to Yin (2003) the results and findings of a case study need to be brought to a closure and clearly stated. This step is called reporting, with numerous forms of reports being available and a typical case study report being a lengthy narrative.

Baxter and Jack (2008, p555) advise that reports can be written, telling a story, providing a chronological report or by addressing each proposition, adding that returning to the propositions helps the researcher fully understand the finding of the research by comparing and contrasting it with what can be found in the literature in order to situate the new data into pre-existing data.

Yin (2003) suggests six methods for reporting a case study and these include: linear; comparative; chronological; theory building; suspense; and un-sequenced.

4.5 Strategy to achieve case study rigour

There is now a standard method for evaluating case study research within the positivist tradition (Yin, 2003; Benbasat et al., 1987; Eisenhardt, 1989). This method acknowledges the importance of three criteria of validity (internal for causality, external for generalizability), reliability and replication.

According to Yin (2003, p33-39), a major issue in designing case study research is the maximisation of conditions related to design quality, i.e. the criteria for judging the quality of research design. The four conditions or test are:

- Construct validity;
- Internal validity;
- External validity;
- Reliability.

(i) Construct validity

Gilbert et al. (2008, p1466) describe construct validity as,

> "…the quality of the conceptualization or operationalization of relevant concepts."

Additionally, Cavusgil et al. (2008, p 239) stated that:

> "…in order to ensure measurement quality, the constructs must be specified so that conceptually they are congenerous while at the same time they satisfy data and sampling requirements."

This is an important way to overcome possible problems of inaccuracy. Gilbert et al. (2008) further stated that in order to enhance construct validity, two measures have been crystallized. They are,

(a) establishment of a clear chain of evidence and

(b) triangulation.

To ensure construct validity, this thesis uses theoretical, methodological and data triangulation to investigate the research questions. Appropriate definitions, operationalization and measurements of the variables have been stated and multiple sources for the data have been proposed. Multiple sources of evidence are clearly needed when little information is available on some aspects of the phenomenon under study.

(ii) Internal validity

In explaining internal validity Gilbert et al. (2008) notes that the issue is whether the researcher provides a plausible causal argument, logical reasoning that is powerful and compelling enough to defend the research conclusions. Internal validity is about establishing credible causal relationships. According to Gilbert et al. (2008) three measures have been proposed to enhance validity. They are,

(a) clear research framework,

(b) pattern matching to compare empirically observed patterns with predicted ones or patterns established in the literature, and

(c) theory triangulation, which enables a researcher to verify findings by adopting multiple perspectives.

To ensure internal validity, this thesis has defined the unit of analysis as the internationalization of Nigerian banks and the factors that influence it. Causal relationships about internationalization have been identified from the literature and a framework for the research has been drawn. Additionally, this research is underpinned by a synthesis of three theories of international business, and propositions have been developed from the literature.

(iii) External validity

This refers to specifying the domain to which the findings can be generalised. This requires carefully choosing of the cases and explaining why each case has been chosen and its similarity and differences to other cases, in terms of the research question guiding the study. Gilbert et al. (2008) add that external validity is grounded in the belief that theories must be able to account for phenomena, not only the setting in which they are studied, but also in other settings.

Gilbert et al. (2008) pointed out that though neither single case nor multiple case studies allow for statistical generalization, this does not, however, mean that case studies are devoid of generalization. Yin (2003) and Eisenhardt (1989) both agree that external validity is maximised in multiple, rather than single, case study design.

This thesis adopted the use of multiple case study design to ensure external validity. Furthermore, the positivist leaning of the research has led to identification of dependent and independent variables as well as the development of propositions which will be compared with the findings of the research.

(iv) Reliability

This refers to the ability to repeat the finding if the same methods are applied. According to Gilbert et al. (2008, p1468), it refers to the absence of random error, enabling subsequent researchers to arrive at the same insights if they conduct the study along the same steps. Formal protocols are required to ensure that procedures are consistent across case studies. The data upon which the analysis is based will be maintained in a distinct database, independent of any analysis.

Gilbert et al. (2008, p1468) explain that transparency can be enhanced through measures such as careful documentation and clarification of research procedures.

Table 4.1 Attributes of good positivist case study research adopted by this thesis following the framework of Dubé and Paré (2003).

ATTRIBUTES OF GOOD PRACTICE:	
AREA 1: RESEARCH DESIGN	
A priori specifications of constructs and clean theoretical slate[internal validity]	*A priori* set of dependent and independent variables were identified.
Clear research question [validity]	Research questions were stated
Theory of interest, predictions from the theory and rival theories[internal validity]	Three theories -eclectic theory, TCA and RBV were used to state concepts and declare propositions
Multiple case study design [validity]	The study utilized five cases [banks]
Nature of single case design [internal validity] Replication logic in multiple case design	The research followed a path of replication logic.
Unit of analysis	Was stated and defined.
Team based research	N/A
Different roles of multiple investigators [reliability]	N/A
AREA 2: DATA COLLECTION	
Elucidation of data collection process [reliability and validity]	Variables, measures, specification and sources of data were specified and sources identified (Chapter 5)
Data collection method; Qualitative method[reliability]	Qualitative and quantitative methods was stated
Triangulation	The study utilises triangulation of theories, methods and data.
Case study protocol and data base [reliability, replicability]	The study recorded data collected and a protocol of procedures.
AREA 3: DATA ANALYSIS	
Elucidation of analysis process	The research process was documented, statements substantiated and evidence displayed.
Coding, pattern matching, data displays, comparing of data with theory [replication and internal validity]	The data was coded and categorised. Cases were analysed individually (Appendix A).
Logical chain of evidence [internal validity]	The evidence have been displayed and findings logically argued.
Empirical testing and time series analysis [internal validity]	Empirical data was matched with the theories to investigate declared propositions.
Cross case comparison [internal validity]	Cross-case analysis was utilised
Use of natural controls [internal validity]	Naturally occurring variations of the variables and various rival theories have been stated
Quotes	Quotes from business documents, academic literature, press and industry sources were used
Project review	As a doctoral thesis, the project has been reviewed by supervisors and examiners
Comparison with literature	Findings were compared and contrasted with the literature to investigate the propositions

Adopted from Lacono et al. (2011)

This thesis has kept a case protocol and record of memos, observations and other evidence obtained in the course of the research.

Dubé and Paré (2003) use these ideas to develop a framework for evaluating positivist case study research in information systems and this thesis has followed their framework (Table 4.1).

4.6. Research ethics

This thesis has complied with the rules and regulations of Heriot-Watt University. The research was conducted in a professional manner and every effort was put to meet all the expectations of the university. Actions taken in the cause of this research was aimed at reflecting well on the reputation of Heriot-Watt University and Edinburgh Business School. The interests of all participating banks and individuals in the research was protected. The confidentiality of interviewees and the wishes of all the participating organisations were also respected.

In responding to the questionnaires, informed consent was inferred to have been given by the respondents. Additionally, interviewees were requested to sign **informed consent forms** before interviews to ensure that all those taking part in the research did so willingly and voluntarily. The information gathered from the questionnaires and interviews was handled with due care and responsibility and transcripts of interviews were made available to interviewees when they needed to be sure of the content of the interview.

The thesis abided by the standards of ethical research by making sure that the research conforms to all the rules of a reliable and valid research study.

4.7. Summary

This chapter has explained the various strategies that were used for the execution of the research. The philosophical paradigm, the research approach, and design have been elucidated. The research has an underlying positivist philosophy that tends toward realism. A multiple-case study approach was used and data were gathered and analysed by a mixture of quantitative and qualitative methods

Following the development of propositions from the literature, measures of variables were identified and data sources specified and the research compared empirical findings with the propositions with a view to perhaps modifying them for future studies.

The next chapter explains how the qualitative and qualitative data was gathered. The data used for the research are specified and the method by which the primary data was analysed is enumerated.

CHAPTER 5

DATA COLLECTION AND ANALYSIS

Following the enumeration of the methodology in the last chapter and the identification of the causal and independent variables in Chapter 3, this chapter defines, specifies and identify the sources of data for this thesis.

This thesis has already categorised the area of study to include:

- Bank motivation for internationalization
- Bank entry mode choice

Furthermore, other forms of categorisation this thesis has adopted include:

- Bank characteristics and business orientation
- Home country conditions
- Host country conditions

The empirical data from the study will be compared with the literature analysed through pattern-matching, within the case and across cases. Emerging themes will be compared and contrasted with the literature and with the working propositions and predictions.

5. 1 Sampling of banks and research participants

This thesis adopted a multiple case study approach, mainly because there is little information on the population of the foreign entries by Nigerian banks from which to identify, in advance, extreme or unique cases for single case analysis.

According to Yin (2003) multiple case studies enable the researcher to explore differences within and between cases. The goal is to replicate findings across cases. Because comparison will be drawn, it is imperative that cases are chosen carefully so that the researcher can predict similar results across cases or predict contrasting results based on theory (analytic generalization).

In order to investigate the phenomenon under study the sample for this research was selected by non-probability sampling.

(i) Sampling frame

At the end of 2012 there were 21 commercial banks in Nigeria of which nine were licensed to have international operations. From this population, five banks that embarked on foreign market entries have been chosen as the cases for this study by using purposive sampling. Between them they made up forty of the fifty-three total foreign entries made by Nigerian banks between 2005 and 2012. Thus, the sampled banks made up seventy-five percent (75%) of all foreign entries by Nigerian banks between 2005 and 2012 (see Tables 1.1 and 1.2).

The banks were chosen because they have a variety of organisational structures and governance regimes, i.e. a broad spread of the variables featured in the propositions above. This makes each bank different from the others in terms of motivation, bank capitalisation tier, size etc; and it is part of the purpose of the thesis to investigate if influences on each bank's internationalization and entry mode decisions are stable across this variety of cases.

In multiple case studies such variety can be particularly useful when conducting cross-case analysis (Yin, 2009).

The five banks chosen comprise:

1. United Bank of Africa (18 international subsidiaries)
2. Access Bank (9 international subsidiaries)
3. Guaranty Trust Bank (5 international subsidiaries)
4. Diamond Bank (4 international subsidiaries)
5. Keystone Bank (4 international subsidiaries)

The sample selection criteria were that:

- All the banks have operated in international markets for the period of the study (2005-2012)
- All have international operations in four or more countries
- The banks showed firm commitment to international operations within the period of the study.

Furthermore, the banks selected fall across the two tiers of banks categorised according to their shareholder fund base. Three are tier 1 banks while two are tier 2. This provides an opportunity to examine the role of asset size in the internationalization decision making process.

(ii) Respondents and interviewees

The sampling of respondents and interviewees was by snowball sampling. Snowballing is a method of expanding the sample by asking one participant to recommend others for interviewing. According to Paré (2001), snowball sampling may identify those involved in the decision making process that led each bank to seek international markets. There is no way of identifying this population of managers in advance.

After purposively sampling the five banks for the study, access to the banks was got after a difficult year long process of communication with the banks. The researcher's past experience as a journalist was useful in identifying some contacts in the banks that helped introduce the researcher to members of the top echelons of the management of the various banks.

These managers helped the researcher identify top managers and board members of their banks who were part of the decision making process regarding the foreign market entries of the banks. The researcher was introduced to these top managers and board members, who agreed to take part in the research (see Appendix C, D, E, F, and G). Subsequently, these research participants also identified other managers to whom questionnaires were also sent. The Likert scale questionnaires were forwarded to these bank contacts who subsequently distributed them to the identified managers and board members. All the top managers identified responded to the questionnaires.

Emphasis was placed on top management in the strategy or corporate planning departments at the banks' headquarters and managing directors of international subsidiaries. The Likert scale questionnaires were sent to four top management and board members of each bank for their response. One of the four respondents in each of the banks was a managing director of one of the international subsidiaries of the bank. Thus, responses were obtained from managing directors of the banks in Ghana, Gambia, Congo DR and Congo Brazzaville. In all twenty managers responded to the questionnaires

5.2. Data Gathering

This section enumerates how primary and secondary data was gathered.

5.2.1 Primary evidence

(i) Likert scale questionnaire

This thesis used Likert scale survey instrument and interviews to collect primary data from bank executives who were directly involved in internationalization. The survey instrument contained set questions that were similar for all the respondents.

The questionnaire was designed to appraise how important stated factors were to a bank's management decision to embark on foreign market entry. It also focused on factors that informed the entry mode choices adopted by the bank when entering foreign markets. Responses to the questions ranged from "not important," "less important," "important," "very important." and "extremely important." (An ordinal range of 1-5).

(ii) Interviews

Besides the questionnaires, two members of management of each bank's HQ were also interviewed to obtain additional insights into the bank's decision making process regarding internationalization.

The interview sessions were also designed to achieve data triangulation and to contrast and validate the data obtained from the responses to the questionnaire. It is considered important for the researcher to have an interview profile which serves to guide discussion and lessens the chance of important topics being neglected (Yin, 2003).

The interviews helped the interviewees cover other subjects that they thought were important in their decision making process and helped to maintain flexibility (Eisenhardt, 1989, p539).

(iii) The interview sessions

The interviews were conducted in the Group Corporate Headquarters of the banks in Lagos in April, 2013. Each interview session lasted an average of 35 minutes as all the interviewees had earlier responded to the questionnaire and only proffered additional insights on their bank's strategies. Some banks insisted on a common bank position so interviews were conducted in one session with both management staff present.

In all ten managers were interviewed, eight were members of the top management of their respective banks while, two were both top management and members of the boards of their banks.

Table 5.1 Showing the research participants and sessions of interviews

Bank	Designation of participants	Date	Interview type	Duration
GTBank	1. Executive director (international Subsidiaries) 2. Deputy head strategy	April, 2013	Joint	35 minutes
UBA	1. Chief Operating Officer, UBA Africa. 2. Former Managing Director, UBA Africa	April, 2013	Individual Individual	35 minutes 30 minutes
Diamond Bank	1. Head, Corporate Planning. 2. Strategic planning unit head	April, 2013	Joint	30 minutes
Keystone Bank	1. Divisional Head, Keystone Africa 2. Group Head Strategy	April, 2013	Individual Individual	35 minutes 30 minute
Access Bank	1. Group Deputy Managing Director 2. Chief Financial officer	April, 2013	Joint	35 minutes

(iv) Informed consent

By responding to the questionnaire, informed consent is assumed for all the respondents. Furthermore, after the interviews all the participants signed an informed consent form acknowledging their willing participation in the research.

5.2.2 Secondary evidence

In order to establish the motivations behind bank internationalization and to triangulate case study materials obtained through the responses to the questionnaire and interviews, secondary data was also employed here in a mixed methodology. Secondary data was sourced from bank annual reports and websites, reports of multilateral banking databases, and agencies like the World Bank and IMF.

Where direct triangulation was not possible, indirect checks were performed by considering whether primary responses could be reconciled with explanations reported in journal articles.

5.3 Data definition, specification and sources

The need to define, specify and state data source is an important part of case study research. Benbasat et al. (1987, p381) state that "…a clear description of data sources and the way they contribute to the findings of the research is an important aspect of the reliability and validity of the findings".

Yin (2003) also advocates the specification of data and its sources. Data relating to determinants of internationalization and entry mode choice of banks, especially as regards the dependent and independent variables have been identified and are now discussed.

5.3.1 Data definition, specifications and sources for factors that influence internationalization

(a) Dependent variable:

Nigerian banks have expanded into many foreign markets. Information on the various markets entries made by the banks, the date of entry and the various countries entered were obtained from bank documents and web-sites.

(b) Independent Variables

Previous studies found that banks internationalize to seek new markets for profit and growth opportunities, follow their home-country clients into new markets, exploit O-advantage as well as fulfil the globalization aspirations of its managers.

(1) Follow-the-Client.

In seeking support for the follow-the-client proposition, scholars have used FDI and trade flows between a bank's home and host-countries as a proxy measure for this (Goldberg and Saunders, 1980; Buch, 2000; Moshirian, 2001; Wezel, 2004).

This data is usually sourced from multilateral bodies like the United Nations Conference on Trade and Development (UNCTAD) or from home country agencies responsible for tracking trade flows.

(2) Economic growth in host country

Economic growth is measured by GDP growth rates, and this data and other macroeconomic measures are found in reports from the World Bank, IMF and have been used by Buch (2000); and Buch and DeLong (2004).

(3) Profit opportunities in host country

Differentials in interest, exchange and tax rates between a bank's home and host countries open up opportunities for arbitrage and profits.

Focarelli and Pozzolo (2001) and Magri et al. (2005) sourced this information from World Bank reports. Additionally, Cerrutti et al. (2007) used data from the Heritage Foundation to source data on corporate tax rates in host countries. Additional data is also available on the CIA factfile website.

Studies have used returns on equity (ROE) and returns on asset (ROA) as measures for the profitability of a banking market. Data on ROE and ROA of banking markets was obtained from the Bankscope database and the financial reports of the banks.

(3) O-advantages

The literature has also noted that banks also internationalize to exploit O-advantages. These include bank size, the DOI, processes and managerial competence, reputation and efficiency.

(i) Bank size

A bank's tier 1 capital, asset base or number of employees have been by used as measures of its size (Buch, 2000; Focarelli and Pozzolo, 2001; Cerrutti et al., 2007).

This data is available in banking databases including Bankscope as well as annual reports of the banks.

(ii) Reputation

Qian and Delios, (2008) measured a bank's reputation by its ranking in prestigious international magazines like Banker's Magazine which publishes an annual ranking of the largest global banks.

(iii) Management competence

A bank management's efficiency and competence have been measured by the profitability of the bank. A banks' ROA and ROE have been used as proxies for this measure (Focarelli and Pozzolo 2001; Magri et al., 2005). This data was sourced from bank documents.

(iv) Technology

The number of telephone lines in a country per hundred people has been used as a proxy for level of development in that country (Buch, 2003)

This data was sourced from International Telephone Union reports World Bank Development Indicators (WDI) and the Financial Development Report of the World Economic Forum (WEF).

(4) Strategic intent: risk diversification and oligopolistic reaction.

Bank sometimes enter foreign markets for strategic reasons. These strategic motives include diversifying risk, reacting to the actions of competitors and fulfilling the aspiration of the bank's managers. Primary evidence on the strategic motivation for international expansion was obtained from bank managers through the Likert scale questionnaire and interviews, while secondary evidence was sourced from bank annual reports, web sites and other sources.

(5) Home country regulations

Data on home country regulations was sourced from the web site of the CBN.

Following Buch and DeLong (2004) data on the regulatory aspects of financial systems was also obtained from Barth et al. (2010, 2012)

(6) Competitiveness and structure of the home banking market

Data on the competitive structure of the Nigerian banking market was sourced from several empirical studies of the structure, competitiveness and performance of the Nigerian banking market.

This data is available from home and host country regulators' reports and web-sites.

5.2.2 Data definition, specification and source for factors that influence entry mode choice

In the literature review chapter, above, it was suggested that firms enter new markets with either low, medium or high levels of equity investment, and entry mode choice has been empirically found to be dependent on the characteristics and business orientation of the firm in terms of host country market attractiveness, regulations, risk profile and institutional framework, etc (Cerrutti et al., 2007; Focarelli and Pozzolo, 2001; Outreville, 2007).

(a) Dependent Variable

Entry modes may reflect strategic intent, business focus and regulations in the host country. Entry can be with low, medium or high equity commitment modes. Low equity commitment modes include representative offices and agencies; while medium equity commitment modes include bank branches, minority equity acquisition of a local bank, JVs and strategic alliances. Entry with high equity modes is by acquisition or greenfield establishments.

Data on the mode by which Nigerian banks entered foreign markets may be sourced from their annual reports and other corporate documents.

(b) Independent variable

A bank's entry mode choice is influenced by a number of factors in the host country. These include the presence of regulations restricting or permitting entry by foreign banks, the host market's attractiveness and the level of environmental uncertainty in the host country.

(1) Host country regulations

Host country regulations influence entry mode choice and some host countries stipulate acceptable entry modes. Measures of host banking regulations were developed by Barth et al. (2012) and this has been used in several studies (Cerrutti et al., 2007; Buch, 2003)

This data was sourced from the World Bank Supervisory and Regulatory database. The database hosts the regulatory and supervisory requirements of several countries and it is compiled by Barth et al. (2012).

Data was also sourced from the websites of host country supervisory bodies.

(2) Host country market attractiveness

A host country is said to be attractive to foreign banks when it has low entry requirements, offers opportunities for profits, high GDP growth rates, a profitable banking market as well as factors that reduce entry and transaction costs.

Entry cost is reduced when a bank's home and host countries are culturally and geographically proximate and when both countries are part of a regional or international block that have lowered or eliminated trade barriers. Countries are said to be culturally proximate when they share a common language, colonial heritage and legal origin.

(i) Same language and colonial heritage

Data for the official languages and colonial heritage of individual countries was sourced from the CIA factfile among others.

(ii) Common legal origin

Data for the legal origin of the home and host countries was sourced from the CIA factfile.

(iii) Geographic distance

Geographic distance is measured as the distance between the host and home country capital cities. Data on the geographic distance between countries was sourced from maps and the CIA factfile.

(iv) Size and level of development of host country banking market

The size of a host country's economy, financial market, including its financial infrastructure and inclusiveness, efficiency and profitability may also influence entry mode choice. The depth and size of a financial market is measured by the ratio of banking credit to the private sector as a percentage of GDP. This information was sourced from World Bank Development Indicators.

The efficiency of a banking market is proxied by measures like interest rate spread and the cost-income ratio in the banking market. This data was sourced from banking databases like Bankscope.

(v) Trade barriers

Studies have shown that reduced trade barriers due to regional integration or international agreements reduce entry costs for banks.

Data on the existence of trade barriers between home and host countries was sourced from websites and publications of multilateral bodies like ECOWAS or World Bank.

(3) Country risk profile

Environmental uncertainty is measured as country risk, level of development of institutions and rule-based governance in a country (Outreville, 2007; Allen et al. 2010; Cerrutti et al. 2007). Country risk is measured by many variables that include a country's level of macroeconomic stability and political risk.

(i) Macroeconomic stability.

Macroeconomic stability is measured by the level of real GDP growth rate, current account balance and inflation rate. Data on these measures were sourced from WDI. These measures were used by Allen et al. (2010) and Cerrutti et al. (2007).

(ii) Political risk

The level of political risk in a country is indicated by measures like political stability, violence and threats to voice and accountability, the likelihood of conflict and democratic participation and freedom of expression.

This data is found on a database of country governance levels maintained by Kaufmann et al. (2009), see below. Other sources of data on levels of political risk include the International Country Risk Guide (ICRG), Euromoney Political Risk Index, Country Watch and other publications.

Data from these databases have been used by Cerrutti et al. (2007) and Konopielko (1999).

(4) Level of development of institutions in the host country

Institutions whose level of development in the host country influence the entry mode choice of banks include those that provide information on borrowers and protect creditors' property and legal rights (Tsai et al., 2009; Buch 2003)

Data on the level of development of borrower information, legal and property rights in host countries was sourced from the WDI.

(5) Level of rule-based governance in the host country

The level of development of rule-based governance is measured by level of rule of law, corruption and availability of regulations in a country.

One of the most widely used in the literature to analyse empirically the impact of regulatory or formal institutions is *Governance Matters III* compiled by Kaufmann et al. (2009).

This database compiles and measures six governance indicators: voice and accountability; political stability and absence of violence/terrorism; government effectiveness; regulatory quality, rule of law; and control of corruption. Data on the level of rule-based governance in several countries was obtained from this database.

The tables below show definition, specification and sources of data

Table 5.2 Motivation for foreign market entry: Variables, data definitions, specifications and sources

Data	Definition	Specification	Source	Previous studies
Dependent Variable:				
Foreign market entry	Bank has embarked on international expansion	Bank has operations in more than one foreign country.	Banks annual reports, documents and website.	Qian and Delio (2008)
Independent variables:				
Growth and market seeking	Economic size and growth potential of host country	Economic growth rate.	World Bank Development Indicator (WDI), and CIA fact file.	Magri et al (2005), Focarelli and Pozzolo (2001), Buch (2003)
Profit seeking	Opportunity for arbitrage from tax, interest and exchange rate differentials profit opportunities in new markets, high ROA in banking market.	Interest rate, GDP, GDP per capita, tax rates, ROA, ROE of banking market	CIA fact file, World bank doing business index 2012	Buch and DeLong (2004); Qian and Delios (2008); Guillén and Tschoegl (1999)

Follow-the-client	Following home-country clients into foreign market to provide banking service and defend information on clients banking needs	FDI flows between home and host country firms	United Nations Conference on Trade and Development (UNCTAD) reports,	Buch, 2000
To exploit O-advantages	Banks assets, processes and technology that improve efficiency and reduce liability of foreignness.	International ranking, size, profitability, number of telephones per person.	Bankers Magazine, annual reports, WDI reports	Focarelli and Pozzolo(2001) Magri et al. (2005) Qian and Delios (2008)
Strategic intent: managerial intentionality, risk diversification and oligopolistic reaction	The degree to which bank executives pursue an internationalization policy for strategic reasons	Pace of internationalization by industry players	Interviews, annual reports and other bank documents	Qian and Delios, 2008; Guillén and Tschoegl, 1999
Home country regulations	Degree to which regulations influence international expansion	Restrictive or supportive laws for international expansion	CBN reports and publications	Cerrutti et al. (2007)
Structure and competitive banking market,	The degree to which the banking market is competitive.	Degree of contestability. Degree of concentration. Structure of the banking market.	Empirical studies from various researchers including Claessens and Levin (2004). World Bank, IMF reports and other financial country reports.	Kiyota (2011); Buch (2000), Zhao and Murinde (2011)

Table 5.3 Entry mode strategies. Variables, data definitions, specifications and sources

Data	Definition	Specification	Source	Previous studies
Dependent variable				
Entry mode	Degree of control resource commitment and organisational form by which banks enters new foreign market	Low equity entry mode (representative office, branch). Medium equity entry mode(JV and minority equity acquisition) High commitment mode of entry (Majority equity acquisition and greenfield establishments)	Annual reports, bank documents and websites	Cerrutti et al. (2007)
Independent variable				
Bank Characteristics and business orientation	The degree to which the characteristics of the bank will influence its choice of market entry	Bank size, international experience and geographic scope and business orientation(investment, wholesale or retail)	Annual report, bank websites and documents and other industry reports	Cerrutti et al. (2007)
Host country regulations	Host country regulations that limit or encourage foreign bank entry	Regulatory laws of the host country	Barth (2012),	Focarelli and Pozzolo (2001); Buch and Lipponer (2004); Cerrutti et al. (2007)
Host-Country risk profile	The degree to which environmental uncertainties including political and economic risk influence entry mode choice	Economic risk-volatility in interest and exchange rate, debt indicators, credit rating, access to finance and size of capital market. Political risk/stability of government, threat to government and means of changing government	La Porta (2000) Economic Intelligence unit, Euromoney Country risk index, ICRG	Cerrutti et al. (2007)

Market Attractiveness	Degree of attractiveness of host-country due to profit opportunities, regional integration, cultural and geographic proximity	Size of host country banking market, GDP, population, cultural and geographic proximity, colonial and legal origin, trade and regional integration.	Banking reports, host country Central Bank reports World Bank, IMF report, CIA fact-file ECOWAS	Galindo et al. (2003); Magri et al. (2005); Buch and Lipponer (2004)
Host-country institutional framework and governance level	The degree to which the government created public and political institutions to ensure that the rule of law is effective	Level property rights, rule of law, voice accountability, political stability, absences of violence/terrorism, government effectiveness, regulatory quality and control of corruption	Governance Matters III compiled be Kaufman et al. (2009), Corruption index by Transparency International	Buch and Lipponer, 2004; Nacken et al. (2012)

Tables developed by the author following Buch and Lipponer, 2004 and Qian and Delios, 2008

5.4 Data analysis methodology

This section explains the methodology used for the analysis of the data collected.

5.4.1 Introduction

This research used a Likert scale questionnaire, as well as open-ended questions in interviews to obtain data from a sample of 20 bank managers who were selected purposively for their knowledge of the internationalization decision making process of the banks. Thus the distribution of bankers can be described as non-parametric. Data obtained from Likert scale instruments are said to be ordinal (Jamieson, 2004) and therefore non-parametric.

5.4.2 Analysis of Likert scale data

There has been extensive debate about the method for analysing Likert scale data. Some scholars have noted that Likert scale data is ordinal and should be analysed using non-parametric statistical tools like the Mann-Whitney test, the Wilcoxon signed-rank test, and the Kruskal-Wallis test.

However, others have advocated the conversion of ordinal data into interval level data on which parametric statistical tools like standard deviation, ANOVA and t-test can be used, especially when a Likert scale survey instrument has multiple items (Norman 2010).

Jamieson (2004) noted that the response categories have a rank order but the interval between values cannot be presumed to be equal. However, Carifio and Perla (2008) pointed out the robustness of using parametric methods on ordinal data. Norman (2010) stated that, a meta-analysis of research studies showed the increasing use of parametric methods on research data, as 70% of research in the Medical Education sector converted ordinal scale data to interval scale and used parametric means of analysis to interpret the data. This is also true for other research sectors and other social sciences including management.

Granberg-Rademacher (2010) noted that there are several methods of rescaling ordinal data into interval data, these include Alternative Least Squares Optimal Scaling, Item Response Theory, Anchoring Vignettes and the Markov Chain Monte Carlo modelling technique which Granberg-Rademacher (2010) proposed.

However, these approaches do not address the problem of using the ordinal scale for item-by-item analysis. For item-by-item analysis, numeric values need to be determined corresponding with each of the categories comprising the ordinal scale.

5.4.3 Normal Distribution Fitting Analysis (NDFA) approach

Following Luiz and Charalambous (2009), this thesis analysed the data using the Norman Distribution Fitting Analysis (NDFA) approach. Stacey (2005) showed this approach to be more reliable and valid in converting ordinal level data into interval level data, thus creating numeric scale. The purpose of using a Likert scale survey instrument to gather primary data was to seek the opinions of managers on factors that were important in their decision making process.

This data gathered was qualitative and thus needed to be subjected to statistical transformation into quantitative data if parametric statistical methods were to be used. Since the NDFA was published, it has been possible to transform ordinal Likert scale data into interval data with greater reliability and validity than most of the other stated methods including the correspondence analysis method.

According to Stacey (2012), constructs such as attitudes, perceptions and preferences are generally impossible to evaluate through direct observation, therefore researchers resort to indirect data sources, typically using some sort of self-report methodology. The scope of this data analysis is the estimation of population parameters, such as means and variances, using survey data that is ordinal in nature. Stacey's (2005) transformation has been effectively used in several studies including Luiz and Charalambous (2009).

Essentially, the fundamental assumption of the methodology is that there is a distribution of perceptions about the range of issues/factors/items/variables presented in the survey. Because the response format is ordinal, it has no absolute, measurable, calibrated numeric values; therefore, the numeric measurement scale may be defined such that the distribution of responses follows a normal distribution (Stacey, 2005; 2012).

Along this numeric measurement scale, there are then threshold values that separate participants' responses into ordinal categories. In the case of this thesis, the categories are "Not important", "Less important", "Important," "Very important" and "Extremely important." In these five response categories, there are four thresholds which separate the categories.

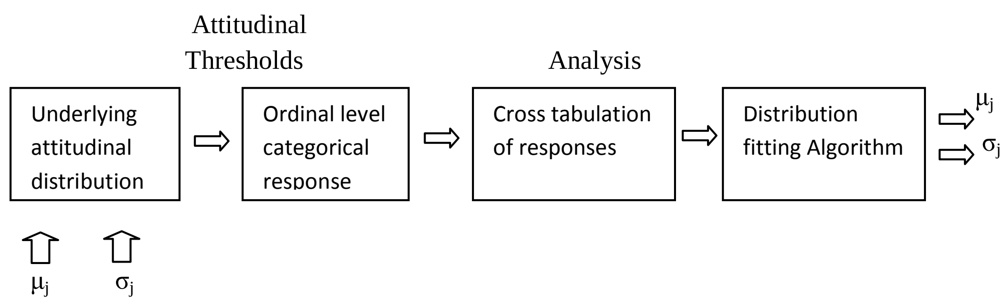
Using normal statistical distribution parameters such as population means and variance, the distribution of responses that is expected for each survey item can be calculated using the NORM. DIST function of Microsoft Excel. However, from the field data gathered from the questionnaire, we have the actual (i.e. observed) number of responses.

The methodology assumes arbitrary values for the means and variance of each of the survey items as well as the threshold values. While still using Microsoft Excel, the next step is to calculate a Chi-square goodness-of-fit statistic between the observed frequencies and the numeric model. Then by using the "Solver" Add-in macro in Excel, we can minimise the Chi-square statistics (i.e. maximise the goodness-of-fit) by varying the means and variance of each of the survey items, and threshold values. If the Chi-square statistic is then insignificant, there is no significant difference between the observed data and the numeric model, and the means and variance in the model are reliable estimates of the means and variables of the survey responses.

The algorithmic approach to analysing ordinal scale data in this thesis has the following properties: the technique can be applied and get consistent results on any scale length, equal category widths are not assumed and all scale effects can be accommodated, ordinal level data is treated strictly as ordinal, and the resulting parameters are interval scaled and can therefore be used in further parametric analysis.

5.4.3.1. Estimation of means and variances

Figure 5.1 Diagram showing a model of analysis methodology used



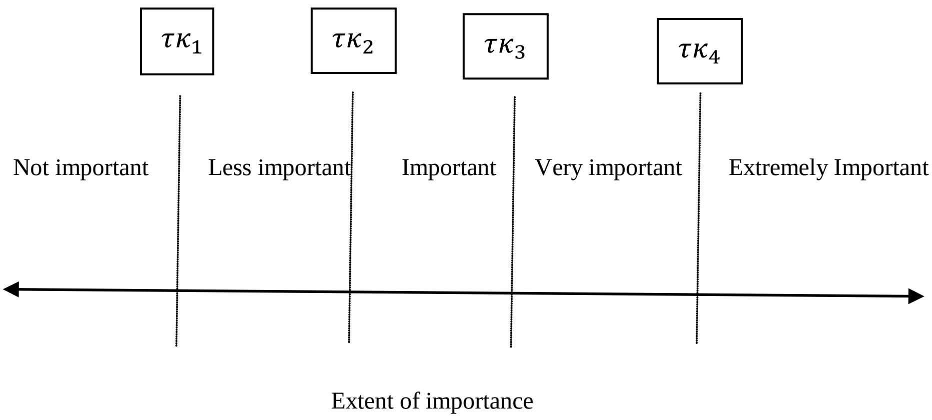
μ_j= item mean, σ_j= Item variance

Following Stacey (2005) and Stacey (2012), let x_{ij} be the i'th participant's latent or intrinsic attitude (i.e. level of importance,) regarding X_j being the issue embodied in the j^{th} survey item, for i = 1 to n_j , where nj is the number of participants evaluating X_j, and j = 1 to m, the number of survey items. X_j is thus a continuous attitudinal variable, $-\infty < x_{ij} < \infty$.

Stacey (2005, 2012) noted that in responding to the survey item, the participants transform their intrinsic continuous attitudes into a discrete explicit and ordinal response format, as determined by the survey design. Thus the intrinsic attitudes are subject to a discretisation transformation before being captured as a (not necessarily numeric) survey response ak for k = 1 to K, where K = number of discrete ordinal categories.

The discretisation transformation depends on a number of notional attitudinal thresholds, such that the participant's responses are one ordinal category apart for intrinsic attitudes that are immediately less than and greater than any given threshold.

Figure 5.2 Discretisation of continuous response scale



Now the ordinal value $z_{ij} = a_k$ for $\tau_{k-1} < x_{ij} \leq \tau_k$ where $\tau_0 = -\infty$ and $\tau_K = \infty$.

An assumption of the model, is that the distributions of the intrinsic attitudes of the population is normal, $X_j \sim$ N (μ_j , σ_j^2).

Using the assumption of normality, the expected number of responses in each of the k response categories was calculated for each of the j survey items, using the standard normal integral, as follows:

$$g_{jk} = \frac{n_j}{\varrho_j / \sqrt{2\pi}} \int_{\tau\kappa-1}^{\tau\kappa} e^{-(\chi-\mu_j)^2/2\sigma_j{}^2}\, dx \qquad (1)$$

This mathematical model is easy to implement numerically using standard desktop software. However, the parameters of the model – μ_j, σj^2 and τ_k – are unknown for all j and k. The data that are available from the survey are actual frequency counts of the numbers of responses observed in each of the k response categories for each of the j survey items, f_{jk}. If the parameters of the model are given arbitrary values, then the χ^2 statistic can be calculated using the conventional formula:

$$\sum_{j=1}^{\kappa} \sum_{\kappa=1}^{\kappa} \frac{(f_{jk}-g_{jk})^2}{g_{jk}} \qquad (2)$$

The χ^2 statistic is a measure of the goodness of fit between the observed survey data and the numerical model. The unknown parameters of the model were estimated algorithmically.

The numerical model therefore comprises the following:

- a tabulation of the observed number of responses in each response category for each survey item,

- a table of values that define the numeric thresholds between the response categories,
- a table of parameters (means and variances) for the assumed population distributions of each survey item,
- a tabulation of the expected number of responses in each response category for each survey item, based on the distribution parameters and threshold values, and
- a calculation of the $\chi 2$ statistic using the conventional formula.

The starting conditions for the algorithm are arbitrarily assigned item means (μ_j), item variances (σ_j^2) and inter-category thresholds (τ_k). Prior to executing the algorithm, the value of the $\chi 2$ statistic was inevitably large resulting in a small *p*-value, indicating a statistically significant difference between the observed and modelled number of responses in each response category for each survey item.

The goodness of fit between the observed number of responses in each response category for each survey item and the model is maximised when the algorithm is executed. Following execution of the algorithm, the χ^2 statistic gets reduced, thereby increasing the *p*-value. Should the *p*-value be greater than the significance level after execution of the algorithm, then the difference between the observed number of responses in each response category for each survey item and the model is statistically insignificant.

The fact that the algorithm fitted normal distributions to the data in estimating the population means and variances means that one of the principle requirements for carrying out parametric tests, particularly with small samples, is automatically fulfilled.

5.4.3.2 Inference

If the difference between the observed number of responses in each response category for each survey item and the model is statistically insignificant, then the model parameters can be taken to be unbiased estimates of the parameters of the population from which the sample was drawn.

The numeric scale associated with the underlying continuous variables was initially arbitrary and dimensionless. However, because the constraints on the algorithm that the overall mean was equal to zero and the total variance was equal to one, the unit of measure became the *standard deviations from the overall mean*.

Therefore, the population parameters can be expressed as interval measures, and because the value of zero has a specific meaning, there is some justification for treating the population parameters as ratio level data.

For example, the mean and variance of each survey item can be used to calculate a t-statistic and *p*-value for each survey item, where:

$$t = \frac{\mu_j}{\varrho_j / \sqrt{n_j}} \qquad (3)$$

A significant result would indicate that the item mean is significantly different from the overall mean. Thus the following can be interpreted from the results:

- If the mean for the item/variable/factor response was appreciably greater than zero ($\mu > 0$) as determined by the hypothesis test, then the factor is significantly more "important" than the overall average importance of all the factors and can be interpreted as being very important relative to other factors.

- If the mean for an item/variable/factor response was very close to zero ($\mu \sim 0$) as determined by the hypothesis test, then that factor is statistically "no more or less important" than the overall average importance of all the factors and can hence be interpreted as being important (the average) relative to other factors

- If the mean for an item/variable/factor response was significantly less than the overall average importance of all the factors and can hence be interpreted as being "less important" relative to other factors.

5.4.3.3 Rescaled interval values

Having fitted a normal distribution to the ordinal data, the probability distribution for the (unknown) value of the underlying continuous variable for each of the ordinal categories for each of the variables is a truncated normal distribution.

Therefore the expected value of the underlying continuous variable for a given ordinal category is simply the mean of the corresponding truncated normal distribution.

The formula for the expected value of the underlying continuous distribution of the *j*'th variable for the *k*'th ordinal category is as follows:

$$\Upsilon_{\kappa,j} = \frac{\int_{\tau\kappa-1}^{\tau\kappa} x.\mathrm{e}^{-(\chi-\mu_j)^2/2\sigma_j{}^2}\,dx}{\int_{\tau\kappa-1}^{\tau\kappa} e^{-(\chi-\mu_j)^2/2\sigma_j{}^2}\,dx} \qquad (4)$$

where $\Upsilon_{\kappa,j}$ is equal to the rescaled value for the κ^{th} ordinal response to the j^{th} survey item, and are the estimated mean and standard deviation of the normal distribution fitted to the responses for the j^{th} survey item (Stacey, 2005, p 21)

5.5 Summary

This chapter has explained the data sources for the research and how the data was analysed using qualitative and quantitative statistical analysis. Following the mixed method methodology, empirical data was gathered using a Likert scale survey instrument and interviews with management and board members of the banks involved in the case studies. Primary data was analysed using the NDFA. Sources from which secondary data was obtained were enumerated.

The next chapter will present the results gathered from primary and secondary sources.

CHAPTER 6

RESULTS

This chapter enumerates the results of the analysis of the data collected from primary and secondary sources. Primary data was obtained using Likert scale questionnaires that were responded to by four members of the board or top management of each of the five case study banks. In all, there were from twenty respondents. The responses were analysed using the NDFA approach.

Secondary data was also obtained from several sources and was used to complement and triangulate the finding from the questionnaire responses and interviews.

The data presented and analysed sought to answer the two main questions of this thesis, namely;

Question 1 What are the factors that influenced the decision of Nigerian banks to embark on foreign market entries?

Question 2 What factors influenced their entry mode choice into foreign markets?

Factors that influenced the decision by the banks to embark on foreign market entry are the focus of the first part of this presentation and analysis. Factors that determined how the banks chose to enter a foreign market are the focus of second part of the results.

Finally, evidence from the primary and secondary data was used to seek support for or modification to, the propositions.

6.1 Determinants of foreign market entry by Nigerian banks

This section presents the primary data that was collected regarding question 1 and how the data were analysed using the NDFA. Primary data was triangulated with secondary data collected from multiple sources.

The two propositions stated about factors that influence international market entry by banks are subsequently addressed.

QUESTION 1

How important were the following factors in your bank's decision to embark on international expansion?

The following is the results of the analysis of Question 1.

Table 6.1 Frequency of responses on the factors that influenced market entry decision making.

Main consideration	Item	Not Important	Less Important	Important	Very Important	Extremely Important	Total
1. To follow bank clients that have expanded internationally	To extend banking services to your clients who have expanded abroad	0	1	5	7	7	20
2. Economic growth in host country	GDP growth rate of the host country	0	1	5	6	8	20
3. Profit opportunities in host country	3.1. Interest rate differential between Nigeria and host country	0	8	4	6	2	20
	3.2. Exchange rate differential between Nigerian and host country currency	0	13	4	3	0	20
	3.3. Tax rates differential between Nigeria and host country	1	14	4	1	0	20
	3.4. Profitability of host country banking market. (High returns on asset (ROA) and returns on equity (ROE))	0	2	8	7	3	20
4. To exploit a bank's tangible and intangible assets, processes, and management skills	4.1. To exploit the bank's size and capital	0	0	6	12	2	20
	4.2. To exploit the bank's reputation	1	0	6	11	2	20
	4.3. To exploit the bank's management skills, processes and know-how	1	0	8	9	2	20
	4.4. To exploit the bank's risk management and credit appraisal know-how	0	1	8	9	2	20
	4.5. To exploit the	0	4	11	5	0	20

	bank's knowledge of institutional and business culture of various international markets						
	4.6. To exploit the bank's technological assets	0	0	9	11	0	20
5. Strategic motivation	5.1. To diversify risk	0	7	4	9	0	20
	5.2. To respond to other industry players expansion - (oligopolistic reaction)	1	5	8	4	2	20
	5.3. Management's desire to expand brand internationally (Managerial intentionality)	0	1	2	14	3	20
6. Home country banking structure and regulatory laws	6.1. Regulations of CBN regarding international expansion (as at 2005)	0	5	6	3	6	20
	6.2. Structure and competitiveness of Nigerian banking market	0	8	8	2	2	20

What other factors, in your opinion, were important in motivating your bank to embark on international expansion?

(list of various responses)

1. Brand expansion
2. Regional synergy
3. Globalisation
4. Knowledge transfer of management skills (profit and cost efficiencies and ability to do business profitably in Nigeria)
5. Vision to be in financial hubs to service clients
6. Opportunities for trade finance

Table 6.1 summarised the responses of the managers to the questionnaires. Additionally factors that respondents perceived to be important in their bank's decision to enter foreign markets, but which were not listed as items on the questionnaire, were listed by the various respondents and interviewees.

Applying the NDFA to Table 6.1, the following results were obtained as Table 6.2.

Table 6.2 NDFA of Question 1: Tabulation of observed and expected responses and distribution parameters

	1	2	3.1	3.2	3.3	3.4	4.1	4.2	4.3	4.4	4.5	4.6	5.1	5.2	5.3	6.1	6.2		
Observed frequencies	To extend banking services to your clients who have expanded abroad	GDP growth rate of host the country	3.1. Interest rate differential between Nigeria and host country	3.2. Exchange rate differential between Nigerian and host country currency	3.3. Tax rates differential between Nigeria and host country	3.4. Profitability of host country banking market. (High returns on asset (ROA) & returns on equity (ROE))	4.1. To exploit the bank's size and capital	4.2. To exploit bank's reputation	4.3. To exploit the bank's management skills, processes and know-how	4.4. To exploit the bank's risk management and credit appraisal know-how	4.5. To exploit the bank's knowledge of institutional and business culture of various international markets	4.6. To exploit the bank's technological assets	5.1. To diversify risk	5.2. To respond to other industry players expansion - (oligopolistic reaction)	5.3. Management's desire to expand brand internationally (Managerial intentionality)	6.1. Regulations of CBN regarding international expansion (as at 2005)	6.2. Structure and competitiveness of Nigerian banking market		
Not important	0	0	0	0	1	0	0	1	1	0	0	0	0	1	0	0			
Less important	1	1	8	13	14	2	0	0	0	1	4	0	7	5	1	5	8		
Important	5	5	4	4	4	8	6	6	8	8	11	9	4	8	2	6	8		
Very important	7	6	6	3	1	7	12	11	9	9	5	11	9	4	14	3	2		
Extremely important	7	8	2	0	0	3	2	2	2	2	0	0	0	2	3	6	2		
n =	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20		
Distribution parameters																			
μ =	**0.7074**	**0.7889**	**-0.2976**	**-0.8399**	**-1.0837**	**0.2114**	**0.4073**	**0.1099**	**-0.0041**	**0.2421**	**-0.2564**	**0.1354**	**-0.1879**	**-0.2850**	**0.5331**	**0.2137**	**-0.3946**		
σ^2 =	**0.9406**	**1.1240**	**1.1415**	**0.5714**	**0.4328**	**0.6427**	**0.2934**	**1.0719**	**1.0083**	**0.4180**	**0.2762**	**0.0574**	**0.7339**	**1.0636**	**0.3988**	**1.8050**	**0.9619**		
Expected frequencies																			
Not important	0.0	0.1	0.9	1.0	1.2	0.0	0.0	0.3	0.4	0.0	0.0	0.0	0.3	0.8	0.0	0.9	0.8		
Less important	1.4	1.5	6.1	10.4	13.1	2.5	0.4	4.0	4.5	1.4	3.9	0.0	5.2	6.0	0.5	4.1	6.7		
Important	3.9	3.6	5.9	6.5	4.9	6.4	5.4	5.7	6.0	6.9	11.2	9.0	7.2	6.1	4.5	4.4	6.4		
Very important	8.0	7.4	5.3	2.0	0.7	8.5	12.4	6.8	6.6	10.0	4.8	11.0	6.1	5.4	11.6	5.7	4.9		
Extremely important	6.6	7.5	1.8	0.1	0.0	2.5	1.8	3.2	2.6	1.7	0.1	0.0	1.2	1.7	3.4	4.9	1.2		
χ2 contributions																			
Not important	0.0384	0.0650	0.9223	0.9645	0.0452	0.0399	0.0000	1.3539	1.0614	0.0030	0.0046	0.0000	0.2588	0.0558	0.0003	0.8550	0.8268		
Less important	0.1207	0.1787	0.5896	0.6245	0.0606	0.0952	0.3989	3.9780	4.4760	0.1261	0.0016	0.0027	0.6254	0.1803	0.5068	0.2061	0.2589		
Important	0.3139	0.5417	0.6184	0.9474	0.1814	0.3900	0.0742	0.0212	0.6529	0.1773	0.0022	0.0000	1.4361	0.5821	1.3733	0.5669	0.4088		
Very important	0.1350	0.2484	0.1056	0.4734	0.1286	0.2807	0.0146	2.5882	0.9102	0.0988	0.0058	0.0000	1.3893	0.3447	0.4989	1.2815	1.7242		
Extremely important	0.0227	0.0392	0.0205	0.0908	0.0076	0.0972	0.0206	0.4705	0.1293	0.0588	0.0822	0.0015	1.2329	0.0555	0.0531	0.2269	0.5426		
40.5926	0.6307	1.0730	2.2564	3.1006	0.4234	0.9030	0.5083	8.4118	7.2298	0.4640	0.0964	0.0042	4.9425	1.2185	2.4324	3.1364	3.7612	Chi-test *p*-value	0.9925
Solver parameters	$\tau1$	$\tau2$	$\tau3$	$\tau4$															
Thresholds	-2.0965	-0.7056	0.1051	1.1324															
Means	0.7768	0.8662	-0.3268	-0.9223	-1.1900	0.2322	0.4473	0.1207	-0.0045	0.2659	-0.2816	0.1486	-0.2063	-0.3130	0.5854	0.2347	-0.4333		
Variances	1.1342	1.3553	1.3763	0.6890	0.5218	0.7749	0.3537	1.2924	1.2158	0.5040	0.3330	0.0692	0.8849	1.2824	0.4808	2.1763	1.1598		
To prevent division by zero:		0																	
Hypothesis tests																			
t-value	3.2618	3.3276	-1.2457	-4.9692	-7.3672	1.1795	3.3633	0.4746	-0.0183	1.6748	-2.1822	2.5278	-0.9808	-1.2359	3.7755	0.7115	-1.7993		
p-value	0.0043	0.0037	0.2288	0.0001	0.0000	0.2536	0.0035	0.6408	0.9856	0.1113	0.0426	0.0211	0.3397	0.2324	0.0014	0.4859	0.0888		

The results reported in Table 6.2 are now summarised in Table 6.3

Table 6.3 Summary of values and their interpretation following analysis of Question 1

Item/ factor	Sample size n	Mean μ	Standard Deviation σ^2	Rank	t-value	p-value	Significance	Interpretation of degree of importance of factor
1. To extend banking services to your clients who have expanded abroad	20	0.71	0.94	2	3.26	0.0043	Significantly greater than average, at $\alpha = 0.01$	Very Important
2. GDP growth rate of host the country	20	0.79	1.12	1	3.33	0.0037	Significantly greater than average, at $\alpha = 0.01$	Very Important
3.1. Interest rate differential between Nigeria and host country	20	-0.30	1.14	14	-1.25	0.2288	Not significantly different from the average	Important
3.2. Exchange rate differential between Nigerian and host country currency	20	-0.84	0.57	16	-4.97	0.0001	Significantly less than average, at $\alpha = 0.01$	Less Important
3.3. Tax rates differential between Nigeria and host country	20	-1.08	0.43	17	-7.37	0.0000	Significantly less than average, at $\alpha = 0.01$	Less Important
3.4. Profitability of host country banking market. (High (ROA) and ROE)	20	0.21	0.64	7	1.18	0.2536	Not significantly different from the average	Important
4.1. To exploit the bank's size and capital	20	0.41	0.29	4	3.36	0.0035	Significantly greater than average, at $\alpha = 0.01$	Very Important
4.2. To exploit bank's reputation	20	0.11	1.07	9	0.47	0.6408	Not significantly different from the average	Important
4.3. To exploit the bank's management skills, processes and know-how	20	0.00	1.01	10	-0.02	0.9856	Not significantly different from the average	Important
4.4. To exploit the bank's risk management and credit appraisal know-how	20	0.24	0.42	5	1.67	0.1113	Not significantly different from the average	Important
4.5. To exploit the bank's knowledge of institutional and business culture of various international	20	-0.26	0.28	12	-2.18	0.0426	Significantly less than average, at $\alpha = 0.05$	Less Important

markets								
4.6. To exploit the bank's technological assets	20	0.14	0.06	8	2.53	0.0211	Significantly greater than average, at α = 0.05	Very Important
5.1. To diversify risk	20	-0.19	0.73	11	-0.98	0.3397	Not significantly different from the average	Important
5.2. To respond to other industry players expansion - (oligopolistic reaction)	20	-0.29	1.06	13	-1.24	0.2324	Not significantly different from the average	Important
5.3. Management 's desire to expand brand internationally (Managerial intentionality)	20	0.53	0.40	3	3.78	0.0014	Significantly greater than average, at α = 0.01	Very Important
6.1. Regulations of CBN regarding international expansion (as at 2005)	20	0.21	1.80	6	0.71	0.4859	Not significantly different from the average	Important
6.2. Structure and competitiveness of Nigerian banking market	20	-0.39	0.96	15	-1.80	0.0888	Significantly less than average, at α = 0.01	Less Important

Using these results, Proposition 1 is addressed.

6.1.1. Proposition 1 -a bank's motivation to expand internationally will be influenced by a need to follow its clients into foreign markets, seek growth and profit opportunities, exploit its O-advantages, and fulfil the strategic aspirations of its managers.

Primary data were gathered from respondents to the questionnaires and the average responses to each question are as stated in Table 6.2 and analysed using the NDFA approach (Table 6.3 and 6.4). In the sections that follow, this primary data is supplemented by secondary evidence from a variety of quoted sources.

(q1) International expansion to follow clients into foreign markets

From the data gathered from primary sources it was found that client-following was a "very important" motivation for international expansion by Nigerian banks.

Using the NDFA, this item was found to be "significantly greater than average at the 0.01 level of significance". It was the second ranked item of importance to the managers in their decision making (Tables 6.2 and 6. 3).

One manager interviewed noted that it was imperative for his bank to follow its clients into foreign markets when he said,

> "…Despite low profitability of the Liberian banking market it was imperative that our bank entered that market to serve our clients who had established their businesses in that country"

Client-following by banks has been empirically studied and supported using FDI and trade flows between a bank's home and host country as proxies (Buch, 2000; Goldberg and Johanson, 1990; Goldberg and Saunders, 1980).

Secondary data shows significant trade flows between Nigeria and other African countries (Table 6.4). A report by the Brookings Institute pointed out that Africa's biggest economies are the biggest inter-regional traders. The report further stated that "Nigeria, Africa's third-largest economy, was its second biggest intra-regional exporter" (Brookings Institute, 2012).

Table 6.4 The value of exports and imports of the top ten African inter-regional traders in 2010

Exports to the rest of Africa		Imports from the rest of Africa	
Country	Value	Country	Value
South Africa	12,097, 161	South Africa	7,059,620
Nigeria	7,599,004	Zambia	3,319,483
Côte d'Ivoire	3,663,154	Ghana	3,261,322
Egypt	2,896,594	Zimbabwe	2,859,942
Kenya	1,953, 564	Côte d'Ivoire	2,563,625
Angola	1,803,362	Nigeria	2,404,335
Algeria	1,318,670	DRC	2,157,381
Zambia	1,368,961	Kenya	1,933, 762
DRC	1,222,823	Mali	1,757,390
Morocco	1,059,572	Morocco	1,604,929

Source IMF, Direction of trade statistics

Additional data obtained from the Yearbook of the African Union (AU) Commission (2012) on the status of intra-African trade may shed more light on the role of trade flows between Nigeria, host countries and market entries by Nigerian banks.

Comparative data shows a high concentration of Nigerian banks in the countries that enjoy the largest exports from Nigeria, namely, Ghana, Côte D' Ivoire and Senegal. These are also countries that enjoy significant FDI from Nigerian firms (Table 6.5).

Table 6.5 Exports from Nigeria and the number of Nigerian banks subsidiaries in select SSA countries

Country	Number of Nigerian banks in the country	Exports from Nigeria in millions of dollar			
		2005	**2008**	**2009**	**2010**
Ghana	5	567.45	1,847.47	301.93	437.44
Côte d' Ivoire	6	844	1,818.50	1,496.56	1256.43
Sierra Leone	7	0	7.41	4.56	3.44
Senegal	3	569.02	927.61	283.66	190.82
Burkina Faso	1	0	1,085	8.30	51.40

Source: Africa Union Commission Yearbook on status of intra-African trade (2012)

Additionally, client-following has been assessed, using FDI flows as a proxy, but significant volumes of FDI from Nigerian firms to SSA countries fall outside formal, nationally-collated and recorded data. In its report on the status of intra-African trade, the AU Commission acknowledges that there is a significant volume of trade and FDI between African countries that is not recorded in formal channels (AU Commission, 2012 p3).

Thus, the involvement and role of Nigerian businesses in the economy of many SSA countries, especially across West Africa, cannot be over-emphasized despite the lack of specific data. This population of Nigerian businesses across SSA have, thus, created a strong motive for Nigerian banks to enter these banking markets and provide banking services including funds repatriation and trade finance among others to their Nigerian clients.

This informal FDI by Nigerian firms in some SSA countries may explain why some countries like Sierra Leone and Gambia host a relatively large number of Nigerian banks without having high levels of exports from Nigeria.

Thus, secondary data using trade flows generally seem to support the primary responses of interviewees, that client-following is a very important factor in a bank's foreign market entry decision.

(q2) Internationalization to seek opportunities in growth economies

Primary evidence from respondents shows that decision makers in the banks viewed the GDP growth rates of host countries as "very important" determinants of foreign market entry.

This item was the most important determinant for market entry as it was the highest ranked item from the data analysis. It was found to be "significantly higher than average at the 0.01 level of significance".

A national economy may be attractive to a multinational bank (MNB) when it is experiencing economic growth and studies have indeed found that banks seek entry into markets with high GDP growth rates (Buch 2003; Buch and DeLong, 2004; Focarelli and Pozzolo, 2001).

Table 6.6 GDP growth rates and macroeconomic indices of select SSA countries as compared to some South American, Asian and OECD countries

Country	Population (Million)	GDP growth rate (2010)	Interest rate ((Prime lending rates of commercial banks) 2011	Corporate Tax rate (2011)
Cameroon	20	2.6	14	49.1
Congo DR	66	7.2	43.75	337.7
Côte d'Ivoire	20	3.0	4.3	44.3
Gabon	2	5.7	15	43.5
Gambia	2	5.0	28	283.5
Ghana	24	6.6	18	33.6
Kenya	41	5.3	15.05	42.6
Liberia	4	5.5	13	43.7
Nigeria	158	7.9	16	32.7
Sierra Leone	6	4.9	21	32
South Africa	50	2.8	9	31
Tanzania	45	7.0	14.96	45.0
Argentina	40	2.6	14.09	108.2
Malaysia	28	7.2	4.83	34.0
UK	62	2.1	4.06	37.3
US	309	3.0	3.25	46.7

Source: World Bank Development Indicators (2012), CIA factfile

SSA countries have been the primary destination of Nigerian banks and data from the IMF indicate that most SSA countries have been experiencing high growth rates in the past decade. Greater political stability has fuelled economic growth in countries like Sierra Leone, Angola, and Mozambique which have emerged from conflict and are now experiencing some of the highest GDP growth rates in the world (World Bank, 2010; IMF, 2010).

Furthermore, commodity prices, which are the mainstay of the economies of most SSA countries, have increased in the past decade due to demand from China, India and other emerging countries (World Bank, 2010).

In support of the primary data, secondary evidence shows that the countries with the highest population of Nigerian banks, namely Ghana (4 banks), Sierra Leone (6 banks) and Côte D' Ivoire (6 banks), have some of the highest growth rates in SSA and indeed the world at 14, 21, and 10 percent growth rates respectively by 2011 estimates (see Table 6.6).

Yet it should be noted that Nigerian banks are absent from some countries in SSA (e.g. Angola and Niger) with substantial GDP growth rates. This suggests that other factors might be limiting entry into those markets.

(q3) Internationalization to seek profit opportunities in host countries

Profit opportunities in host countries were counted as significant determinants of international expansion by managers interviewed. But profit opportunities due to differentials, exchange rate and tax rates were considered "less important" while profit opportunities due to differentials in interest rates, and profitability of host country's banking markets were found to be "important"

Secondary data seems to support this primary evidence (see below).

(q3.1) Interest rate differentials

Primary evidence found that interest rates differential between the home and host countries was an "important" consideration for managers. The data analysis found this item to be "not significantly different from average."

Regarding interest rates differentials between home and host countries, the two interest rate measures used in extant research are the prime lending rates of commercial banks to borrowers and the risk free interest rates which measure the rate at which governments sell so-called risk-free Treasury bills. Studies have noted that low interest rates in the home country mean that funds are cheap and this could act as a push factor for expansion into markets with high interest rates (Herrero and Simon, 2003).

The general consensus is that high interest rates at home hamper international expansion by firms, while low interest rates at home, which lead to narrow interest margins and lower cost of capital, are one of the main reasons offered by banks to explain their operations abroad.

This is particularly so in emerging countries where margins tend to be much larger (Herrero and Simon, 2003). This has been corroborated by case studies of Spanish banks in Latin America (Guillén and Tschoegl, 1999).

Yet secondary evidence also seems to suggest that interest rate differentials between home and host countries seem unlikely to have been an important consideration for market entry decision.

Interest rates across most SSA countries are variable (Table 6.6). Prime lending rates range from as high as 52 % and 43 % for Madagascar and the Democratic Republic of Congo (Congo, DR) to as low as 4.3 percent for Niger and Côte d'Ivoire. At 16%, prime lending rates in Nigeria are relatively high and this means that there are few countries offering the potential for significant profit from arbitrage in SSA. But when compared to countries hosting the largest number of Nigerian banks, namely Ghana, Sierra Leone and Gambia with interest rates of 18, 21 and 28 percent respectively, there seems to be margin for profit opportunities. Yet, Côte d'Ivoire, with interest rates of 4 percent, also hosts a large numbers (6) of Nigerian banks despite the relative high differential in cost of capital sourced from Nigeria and invested in Côte d'Ivoire. This means there must be other considerations influencing entry into host markets.

(q3.2) Exchange rate differentials

Primary evidence shows that managers did not consider exchange rate differentials between their home and host countries to be important in their decision to enter foreign markets. The data analysis showed this item to be "significantly less than average at the 0.01 level."

Studies have noted profit opportunities presented due to variability in exchange rates as a pull factor for international market entry. The under-valuation of a home country currency has been suggested as a way to reduce the cost of funds and banks can seek international market entry as a result of their ability to mobilise cheap funds (Herrero and Simon, 2003).

(q3.3) Tax rate differentials

Respondents noted that host country tax rate differentials were "less important" in their foreign market entry decisions. This item was found to be "significantly less than average at the 0.01 level".

However, Cerrutti et al. (2007) found that differentials in corporate tax rates between home and host country do influence foreign market entry. They noted that low corporate tax rates in the host country encourage foreign bank entries.

Similarly, secondary data shows that tax rates in SSA are relatively high and should otherwise serve as a disincentive for entry (see Table 6.6). On the other hand, corporate tax rates in Nigeria are among the lowest in SSA at 32 %.

So it seems clear from the evidence that the host country tax rate could not have been a very important consideration for entry into SSA by Nigerian banks.

(q3.4) Profitability of host banking market

Primary evidence shows that the profitability of SSA banking markets was an "important" factor for foreign market entry by Nigerian banks. The item was found to be "not significantly different from average"

The profitability of a banking market may be measured by ROAs and ROEs and secondary data shows that SSA banks have high values for both measures (Table 6.6)

Focarelli and Pozzolo (2001) and Magri et al. (2005) found that levels of financial development and profit opportunities in host markets are significant determinants of entry by foreign banks.

In an empirical study of the profitability of banks in SSA, Flamini (2009) found that commercial banks are very profitable in SSA and posited that apart from credit risk, higher ROA are associated with larger bank size, activity diversification and private ownership of banks. Average ROAs were about 2% over the last ten years, significantly higher than bank returns in other parts of the world.

This picture holds true whether ROAs are assessed by country, by country income groups, or by individual banks. Even alternative measures of profitability, like net interest margins, provide a similar picture (Flamini et al. 2009).

Studies have also shown that most SSA banking markets are monopolistic, highly concentrated, and inefficient, yet they are very profitable, with high ROA and ROE and high interest rate margins. Collusion and market power, among others reasons, have been suggested for such profitability (Flamini et al., 2009; Kiyota, 2011; Sanya and Gaertner, 2012; Florian, 2012).

Additionally, empirical studies have shown that the attraction of SSA banking markets for foreign banks from other SSA countries like Nigerian and South Africa, which have more developed banking sectors, derives from profit opportunities in host banking markets due to low levels of financial access, inefficiency and ease of entry (Cull and Peria, 2010; Flamini et al., 2009; Kiyota, 2011; Sanya and Gaertner, 2012; Florian, 2012; Luiz and Charalambous, 2009).

(q4) International expansion to exploit a bank's tangible and intangible assets processes and management skills

According to Dunning, (1980) and Cho (1986) banks expand abroad to exploit O-advantages that help reduce the liability of foreignness. These advantages include size, reputation, managerial competence, products, technology, etc.

Primary evidence obtained from respondents showed that expansion to exploit O-advantages were "important" factors in foreign market entry decisions. These O-advantages include a bank's reputation, size and capital, management processes and know-how, risk and credit appraisal skills, and technology (see Tables 6.2 and 6.3).

Additional secondary evidence seems to support these primary responses, see below.

(q4.1) Size and capital

From primary evidence, respondents noted that the size and capital of their banks was a "very important" consideration for managers in their foreign market entry decision. The analysed data using NDFA showed this item to be "significantly greater than average at the 0.01 level of significance"

Studies confirm that the size and capital of a bank are important determinants of foreign market entry (Buch, 2000; Focarelli and Pozzolo, 2001; Tschoegl, 2003).

Following the consolidation of the Nigerian banking market in 2005, when banks were directed by the CBN to increase their tier 1 capital from 2 billion to 25 billion naira, the Nigerian banking market became the second biggest in SSA (Kasekende et at. 2009).

Data from the Banker Magazine shows that by 2010 Nigerian banks were among the largest banks in Africa by tier 1 capital and assets and they have been ranked among the top 1000 banks in the world (Table 6.7).

Hesse (2007) argues that newly emerged banking systems that are highly liquid will probably seek product diversification and international expansion, and secondary evidence seems to support that assertion, as international expansion by Nigerian banks was triggered mainly after the consolidation program of 2005 (Cuffe, 2008).

Additional evidence shows that international market entry was pursued as a strategy mainly by the banks with the greatest capital and assets. Even then, it should be noted that a medium-sized Nigerian bank is still large relative to most banks in SSA.

Table 6.7 The ranking of the top twenty banks in Africa by Tier 1 capital and assets in 2011

	Bank	Country	Tier 1 Capital ($M)	Asset ($M)		Bank	Country	Tier 1 Capital ($M)	Assets ($M)
1	Standard Bank	South Africa	12,062	201,493	11	Banque Extérieure d'Algérie	Algeria	2,046	30,033
2	ABSA	South Africa	8, 152	108,073	12	National Bank of Egypt	Egypt	1,790	52,568
3	First Rand	South Africa	6,036	83,615	13	BMCE Bank	Morocco	1613	22,399
4	Nedbank	South Africa	5,716	91,785	14	Banque National d'Algérie	Algeria	1373	17,510
5	Attijariwafa Bank	Morocco	2,786	36,694	15	Guaranty Trust Bank	Nigeria	1,362	7,646
6	Libyan Foreign Bank	Libya	2,573	13,155	16	Ecobank Trans International	Togo	1,292	10,467
7	Investec Bank	South Africa	2,519	37,778	17	African Bank	South Africa	1,255	5,911
8	Zenith Bank	Nigeria	2,405	12,578	18	Access Bank	Nigeria	1,149	5,342
9	First Bank	Nigeria	2,221	15,301	19	Commercial International Bank	Egypt	1,104	13,020
10	Groupe Banque	Morocco	2,085	25, 754	20	United Bank for Africa	Nigeria	1,084	10,737

Source: The Banker's Magazine, The African Banker Magazine (data on Keystone bank not available since takeover by AMCON)

(q4.2) Reputation

Managers stated that the reputation of their banks was an "important" O-advantage to exploit in host markets. This item was also found to be "not significantly greater than average"

Studies have used the ranking of a bank in *The Banker Magazine* as a proxy for its reputation and (Qian and Delios, 2008) and secondary data shows that by 2007 seven Nigerian banks were ranked among the top 1000 banks in the world according to the size of their tier 1 capital and assets. Additionally, ten Nigerian banks were ranked among the top twenty banks in Africa by 2010 (see Table 6.7).

Nigerian banks, by their placing on the ranking, became among the most reputable banks in SSA. Additional evidence also shows that foreign market entry was made mainly by the banks that were among the top ranked in Africa (Table 6.7).

Table 6.8 Size, capital and ranking and profitability of Nigerian banks and the number of their foreign market entries

Bank	Tier 1 capital ($M)	Asset ($M)	ROA (%)	ROE (%)	Ranking in Africa (2011)	No. of foreign operations (2012)
GTBank	1,362	7646	4.2	23.6	15	6
UBA	1084	10737	0.2	1.9	20	18
Access Bank	1149	5342	2.0	9.3	18	10
Diamond Bank	750	3948	0.8	4.5	30	4
First Bank	2,221	15, 301	1.9	12.9	9	5
Zenith Bank	2,405	12,578	2.6	13.8	8	5
Skye Bank	695	4,474	1.7	10.9	31	3

Source: The Banker's Magazine, The African Banker Magazine, banks annual reports

Table 6.8 highlights the size, capital and ranking and profitability of Nigerian banks. The Table includes banks in the case studies and also Zenith and First Banks, which are the two largest banks in Nigeria. Skye Bank on the other hand is a medium-sized bank. All have embarked on international market entries. Relative to the banks in the case studies, Zenith and First Banks have fewer international operations despite their size, ranking and profitability.

(q4.3) Management skills, processes and know-how

Primary evidence from the respondents denoted that managerial know-how and processes are valuable and "important" assets that can be exploited in foreign markets. This item was found from the data analysis "not to be significantly different from average."

Indeed Madhok (1997) pointed out that firms develop capabilities and processes that give them a competitive advantage in foreign markets.

Managers interviewed for additional insights pointed out that some Nigerian banks have developed unique management skills and processes that confer them with competitive advantage in other SSA countries. Managers listed cost and profit efficiencies and expertise in doing business in a challenging environment as unique management knowledge.

Secondary evidence also supports this finding.

The profitability of a bank or banking markets has been used as a proxy for management competence and performance (Focarelli and Pozzolo, 2001). Focarelli and Pozzolo (2001) found that a bank's ROA is positively correlated with the extent to which it expands abroad. Added to this, Focarelli and Pozzolo, (2001) also found that banks with a higher share of non-interest income are more likely to have a foreign presence. Their interpretation is that more innovative banks look for new profit opportunities and, therefore, have both a larger share of revenues from non-traditional activities and a greater propensity to expand abroad.

With an ROA averaging 3.01 in 2005 and 2.07 in 2006 the Nigerian banking market is one of the most profitably in SSA. Evidence also shows that non-interest income realised by Nigerian banks due to universal banking increased their profitability (Cuffe, 2008). Universal banking licence allowed the banks to engage in a wide range of financial and non-financial activities including insurance, stock-brokerage, pension fund administration and asset management, among others (Kasekende et at. 2009).

In a study of the competitive structure of Nigerian banks, Kasekende et al. (2009) stated that following the reform program of 2005 in Nigerian banking, most of the performance indicators of Nigerian banks satisfied high quality benchmarks such as ROA, ROE, capital strength, asset size, and soundness. Furthermore, in an empirical study of the cost and profit efficiencies of foreign and domestic commercial banks in SSA banking markets, Kiyota (2011) found that Nigerian banks, along with other SSA-owned international banks, developed profit and cost efficiencies that enabled them to expand and compete against domestic banks in SSA.

Thus, in line with Focarelli and Pozzolo (2001), the high profitability and cost efficiencies of Nigerian banks due to their banking, financial and non-financial activities can be interpreted to mean that the banks possess high levels of managerial competence and skills.

Added to this, bank managements have developed unique capabilities in the cause of providing banking services in Nigeria. Managers interviewed believed that the most important of this know-how is their expertise in doing business in challenging business environment.

Secondary evidence shows that there are similarities in physical and institutional environment between Nigeria and many SSA countries but, if anything, circumstances have sometimes presented more difficulty for banks in Nigeria.

These physical similarities include low levels of electricity generation and consumption per capita and poor telecommunication infrastructure. Similarity in the level of development of institutions includes same levels of development borrower information (Credit Bureau Agencies) and the judiciary. There are also similarities in levels of corruption and rule-based governance like creditor protection and property rights (Table 6.9)

Table 6.9 Indicators of development in select SSA, South America, Asian and OECD countries

	Country	Telephone subscription per 100(2009)		Electricity per capita 2009	Internet users per 100 people (2010)	Dept of credit information (1-10)	Doing business ranking (2012)	Property rights and rule-based governance (2011)
		Fixed line	Mobile					
1	Cameroon	3	44	271	4	2		2.5
2	Congo DR	0	18	104	0.7	0	178	2.0
3	Côte d'Ivoire	1	76	203	2.6	1	167	2.0
4	Gabon	2	107	922	7.2	2	156	
5	Gambia	3	86	-	9.2	0	149	3.0
6	Ghana	1	71	265	9.5	3	63	3.5
7	Kenya	1	62	147	25	4	109	2.5
8	Liberia	0	39		7.0	1	151	2.5
9	Nigeria	1	55	121	28.4	0	137	2.5
10	Sierra Leone	0	34	-	0.3	0	141	2.5
11	South Africa	8	101	4,532	12.3	6	35	
12	Argentina	25	144	2,759	36	6	113	
13	Malaysia	16	119	3,614	56	6	23	
14	UK	54	130	5,692	84.7	6	6	
15	US	49	90	12,914	74.2	6	4	

Source: WD Source: WDI, World Bank Doing Business Index (2012)

With low electricity consumption per capita, few telephone lines per 100 persons as well as low credit information on borrowers, Nigerian banks, like most businesses operating in the country, provide their own electricity, invest heavily in telecommunications and favour relationship banking to gather information on customers (see Table 6.9).

Thus, measures like cost-to-income ratio are very high among Nigerian banks due to fixed capital costs associated with the setting up of new branches, acquiring and operating electricity generating sets as well as information, computer and technology (ICT) equipment for all bank branches in order to facilitate intra and inter-bank communications as well as support their internet and mobile banking platforms (Kiyota, 2011).

The challenges faced by businesses due to the low levels of development of institutions in Nigeria are revealed by her low rank in the World Bank Ease of Doing Business Index. This index outlines the level of development of institutions and availability of regulations that facilitate the setting up and enforcement of property rights for business in various countries. A low rank of 137 in the 2012 Index mirrors the level of development of such institutions in Nigeria (Table 6.9).

With this evidence, it can then be argued that Nigerian banks have developed capabilities, know-how, and processes, on how to conduct business profitably in an environment with low infrastructural and institutional development. It is these capabilities and know-how that give them a competitive advantage when transferring to other SSA countries (Claessens and van Horen, 2008).

(q4.4) Risk management and credit appraisal know-how

Primary data from the responses to the questionnaires showed that a bank's credit risk appraisal knowledge is viewed as an "important" asset. This item was found to be "not significantly different from average".

Managers, when giving additional insights in interviews, viewed the ability of their officers to appraise risk when lending money to borrowers, especially in markets with little or no credit information on borrowers, as an intangible asset that gives them a competitive advantage when transferring to foreign markets.

Credit risk is high in most SSA countries, including Nigeria, because of limited information on borrowers and low creditors' rights (see Table 6.9). Yet, despite these risks, data shows that credit to private sector as a percentage of GDP by banks in Nigeria is among the highest in SSA. Thus, secondary data, in line with primary responses, suggests that Nigerian banks have developed other means of risk appraisal and information generation about borrowers. Most notable among these measures to mitigate risk is relationship banking.

Torre et al. (2010) note that banks use relationship banking to overcome the opaqueness of information on creditors. By “opaqueness” the literature means that it is difficult to ascertain if firms have the capacity or the willingness to repay a loan. Berger and Udell (2005) stated that relationship lending can mitigate the problem of opaqueness because it relies primarily on “soft” information gathered by loan officers through continuous, personalised, direct contact with firms.

Kasekende et al. (2009) pointed out the increased investment of Nigerian banks in personal (relationship) banking following the consolidation program of 2005. This required additional investment in branch networks to increase face-to-face interactions and generate information about bank clients.

Table 6.10 The branch network and number of ATMs owned case study banks in Nigeria

Bank	Headquarters	No. of states with banks branches in Nigeria	No. of branches in Nigeria		No. of ATMs	
			2006	2011	2006	2011
GTB	Lagos	36		184		777
ACCESS BANK	Lagos	36	118	310	119	1,600
DIAMOND BANK	Lagos	36		223		260
UBA	Lagos	36		711		1,211
Keystone Bank		36		204		

Source bank annual report (data on Keystone bank not available since acquisition by CBN)

Secondary data shows the investment of Nigerian banks in branch networks to mobilise information on clients and deposits. Evidence of this can be seen with Access Bank which in 2006 operated from 118 branches and had 310 Automatic Teller Machines (ATMs) but by 2011 had 310 branches and had 1,600 ATMs across Nigeria (see Table 6.10)

Nigerian banks face more risk in host countries due to a lack of borrower information, but data shows the banks to be using extensive branching to mobilize information on clients in foreign markets. Evidence of this is typified by GTBank which only entered the Liberian market in 2009, but had established nine greenfield branches by 2011 (Table 11).

As Decker (2012, p131) stated in his summary of the role of foreign banks in Sierra Leone,

> "…the regional dimension of the new entrants origin is a distinctive feature as nine of them are subsidiaries of leading Nigerian banks"

Decker (2012, p132), added that,

> "…accompanying the influx of new banks has been growth in the wider distribution of branch networks."

Decker (2012) noted a six fold increase in the number of bank branches from 13 in 2001 to 81 in 2010.

Decker (2012) suggests that foreign banks may have been using branching to differentiate themselves and gain competitive advantage as proximity to customers' helps banks to collect information, develop relations and facilitate more efficient relationship lending, especially as the foreign banks may not have the trust capital, image and reputation that local banks enjoy.

Table 6.11 Number of branches of case study banks in selected SSA countries at the end of 2012

Bank	Ghana	Sierra Leone	Gambia	Burkina Faso	Benin republic	Côte d'Ivoire
Access	32	4	5	-	-	2
UBA	24	5	-	20	11	5
GTB	22	9	15	-	-	1
Diamond					18	1
Keystone			6			

Source: Banks annual reports

Studies in Ghana have also noted the rapid expansion of foreign banks including Nigerian banks through extensive branch networks (Achampong, 2011).

Thus, secondary data, in line with primary responses, suggests that Nigerian banks have developed other means of risk appraisal and generation of information about borrowers. Most notable among these measures to mitigate risk is relationship banking.

(q4.5) Knowledge of institutional and business cultures in various international markets

Primary evidence suggests that knowledge of business culture and institutions of host countries were a "Less important" factor for the banks in their decision to enter foreign markets. This item was found to be "significantly less than average at the 0.05 level of significance" from the data analysis.

A bank's knowledge of the institutional and business cultures of host markets, gathered as a result of the scale and scope of its international operations over time, is considered as tacit knowledge that confers a competitive advantage on a bank (Kagut and Singh, 1988). Erikson et al. (1997) and Qian and Delios (2008) argue that a bank will internationalize further as it gains experiential knowledge of host business culture and institutions.

However, secondary evidence seems to corroborate the assertion of the respondents that their banks viewed their knowledge of the institutional and business culture of their host countries as a less important advantage to exploit. Most Nigerian banks entered foreign markets in SSA with high equity entry mode despite not having operated in these markets before and without any prior experience of foreign market entry.

(q4.6) Technological assets

Primary evidence from interviewees shows that exploitation of the technological assets of a bank was a "very important" motive for internationalization. This factor was found to be "significantly greater than average at the 0.05 level of significance".

Other empirical studies have also found that banks with technological assets expand internationally to take advantage of economies of scale and improve efficiency (Herrero and Simon, 2003).

Kasekende et al. (2009) noted that, following the consolidation program of 2005 Nigerian banks increased the use of ATMs, introduced point-of-sales terminals, increased the issuance of credit cards and improved their internet and mobile banking platforms.

Secondary evidence also shows increased investment in distribution channels like ATM machines made by Nigerian banks at both their home and international operations. Technological assets also include investment in ICT equipment that facilitates online real-time banking across bank's local and international branches (see Table 6.10).

(q5) International expansion for strategic reasons

Empirical data obtained from interviews reveals the relative importance of different components of strategic motivation as factors that influenced international market entry.

Bank internationalization can be a deliberate strategic decision. Strategic motivation for international expansion may include risk diversification, (Aggarwal and Durnford, 1989) oligopolistic reaction (Qian and Delios, 2008) and management's intentional decision to expand (Solomon and Wu, 2012).

(q5.1) Risk diversification

Interviewees noted that risk diversification was an "important" factor in the motivation for international expansion. The analysis of the responses of managers found this factor "not to be significantly different from average".

(q5.2) Oligopolistic reaction

Primary evidence from managers asserted that oligopolistic reaction was an "important" factor in their decision to enter foreign markets. The analysed data was found to be "not significantly different from average". Indeed in the interviews some bank managers stated the need for their banks to,

> "…react to the competitive action of global, regional and local banks"

The Oligopolistic Reaction theory states that the decision of one firm to invest overseas raises competing firms' incentive to invest in the same country (Hymer, 1976; Knickerbocker, 1973). This theory is also known as the "follow- my- leader theory" and "bandwagon effect theory". It states that a firm's strategy depends not only on their own capabilities but on the behaviours of their chief competitors. Empirical research related to FDI theory has generally supported the notion that firms in an oligopolistic industry at home tend to follow each other overseas, making similar investments in the same country.

Williams (1997) also noted that banks also react to the actions of their competitors and follow them to markets to which they are moving, or avoid some markets that their competitors have already entered.

Thus, if Bank A establishes a subsidiary in a country where Bank B has none, Bank B can counter the threat to its position by investing in the country that Bank A selected so as to keep up. Bank B may fear that if it does not invest in that country, Banks A may have an advantage in obtaining new capabilities, such as local customer knowledge, sites for bank branches, or management skills (Williams, 1997).

Table 6.12 Pace of international market entries made by some Nigerian banks between 2000 and 2012

Bank	Number of international market entries					
	2000	2004	2006	2008	2010	2012
GTBank		2	3	4	5	6
UBA		1	2	7	16	18
Access	-	-	1	7	10	10
Diamond		1	1	1	1	4
Zenith	-	-	2	3	4	5
Keystone bank			1	2	4	4
Skye				2	3	3

Source: Banks' annual reports

Studies have shown that oligopolistic reaction is an important factor that has characterised the international expansion of banks from Germany, Scandinavia, Singapore and Spain (Tschoegl, 2002; Jacobson and Tschoegl, 1999; Guillén and Tschoegl, 2000).

Qian and Delios (2008) used the pace of international market entry by banks from the same country into a particular host country as a proxy for oligopolistic reaction, and there is evidence of a rapid pace of internationalization by Nigerian banks between 2007 and 2010. Within this period the number of Nigerian banks that embarked on foreign markets entries increased, as did the number of countries entered (see Table 6.12).

Secondary evidence seems to suggest a “bandwagon effect” in the expansion of Nigerian banks into foreign markets. Data shows that among many other reasons, the banks might have reacted to the expansion of their rivals into foreign markets by entering the same markets shortly afterwards.

Oligopolistic behaviour by Nigerian banks can be adduced from the pace of their foreign market entry and their large concentration in a few SSA countries. An example is the pace of entry into Ghana by Nigerian banks.

Entry into Ghana by UBA in 2004 was followed swiftly by the entry by Zenith Bank (2005), GTBank (2006), the defunct Intercontinental Bank (2006) and Oceanic Bank. By 2008 there were six Nigerian banks with subsidiaries in Ghana. This suggests that entry into Ghana by UBA may have triggered a “bandwagon effect” that led other Nigerian banks to enter Ghana (see Table 6.12)

The same “bandwagon effect” might have been true for entry by Nigerian banks into Sierra Leone, Gambia and Côte d’Ivoire which host high concentrations of Nigerian banks. Indeed, of the 53 international market entries made by Nigerian banks, 20 are in these four countries.

Thus, primary and secondary evidence shows that Nigerian banks reacted to their actions of their competitors in expanding internationally. Managers found this factor to be an important consideration and evidence using the pace of entry by Nigerian banks into a particular host country and the number of Nigerian banks in the country hints at a “bandwagon reaction” by rival banks.

Still, it can be argued that other factors earlier enumerated, including GDP growth rates and profit opportunities in host countries may have been more important “pull” factors for all the banks that engendered the rapid pace of entry and large concentration of Nigerian banks into a particular host country.

(q5.3) Managerial intentionality

Respondents noted the role of managerial intentionality in the expansion decision of the banks. This motivation was cited as the most important strategic reason for internationalization. Analysis of the primary data showed that managerial intentionality was "significantly greater that average at the 0.01 level of significance." This indicates that this is a "very important" factor to bank managers. Indeed this was the third ranked item by respondents regarding factors that determined international market entry by their banks.

Despite other proven determinants of foreign market entry as stated above, studies have shown that a bank's internationalization motivation can be due to a manager's strong intent to grow and enter new markets, set new industry frontier aspirations, set stretch goals and exploit financial and human resources slack within the bank (Hutzschenreuter et al., 2007; Solomon and Wu, 2012). Guillén and Tschoegl, (1999) found this to be a strong motive for the expansion of Spanish banks into Latin America.

Some managers who were interviewed pointed out that international expansion was a conscious decision made by management for a variety of reasons including global presence and brand visibility. These agendas were some of the most powerful driving forces for international market entry.

Secondary evidence on managerial intentionality can also be inferred from the strategy statements of some of the banks as stated in their financial reports.

These include;

a) Access Bank- "To be the most respected bank in Africa."
b) GTBank- "To be one of top three banks in Africa by 2016."
c) UBA- "To be Africa's global bank."
d) Diamond Bank- "A strong financial services institution with effective presence in Nigeria, Africa and indeed all key financial centres of the world."

Thus, both the primary and secondary evidence agree that managerial intentionality is the most significant strategic reason for international expansion for all the banks.

Conclusions on Proposition 1

Table 6.13 Primary and secondary evidence of Proposition 1

P1: Interview Questions	**Primary Evidence**	**Secondary Evidence**	**Conclusions on P1**
q.1 Client- following	Very Important	Consistent	**Consistent**
q2. GDP growth rate of host	Very Important	Consistent	**Consistent**
q3.1 Interest rate differentials	Important	Consistent	**Consistent**
q3.2. Exchange rate differentials	Less important	Contradictory	**Inconsistent**
q3.3 Tax rate differentials	Less important	Contradictory	**Inconsistent**
q3.4 Profitability of host banking market	Important	Consistent	**Consistent**
q4.1 To exploit bank's size	Very important	Consistent	**Consistent**
q4.2 To exploit bank's reputation	Important	Consistent	**Consistent**
q4.3 To exploit bank's management skill	Important	Consistent	**Consistent**
q4.4 To exploit credit appraisal know-how	Important	Consistent	**Consistent**
q4.5 To exploit bank's knowledge of host country business culture	Less Important	Contradictory	**Inconsistent**
q4.6 To exploit bank's technology assets	Very important	Consistent	**Consistent**
q5.1 Strategic motivation to diversify risk	Important	Consistent	**Consistent**
q5.2 Strategic reaction to competitor action	Important	Consistent	**Consistent**
q5.3 Management's desire to expand brand	Very important	Consistent	**Consistent**

From primary and secondary evidence gathered and analysed, it has been found that the client following was a "very important" motive for international market entry by the banks. Client following was also supported by data on trade flows which shows significant presence of Nigerian banks in countries with the most imports from Nigeria.

Economic growth in host countries was found to attract Nigerian banks, just as evidence on profit opportunities in host countries showed that exchange and tax rates differentials between Nigeria and host countries were “less important” factors in a bank’s decision making process. On the other hand, profitability of a host country banking market was an “important” motivation for entry by Nigerian banks.

Primary and secondary evidence showed that Nigerian banks sought to exploit their tangible and intangible assets in host countries. These assets included their size, reputation, management know-how, risk appraisal capabilities and technology. Regarding strategic motivation for internationalization, primary evidence suggested that risk diversification was an “important” motivation for internationalization. Respondents stated some banks were motivated to embark on foreign market entry in reaction to the international expansion by their rivals.

This factor was found to be “important” in their decision making. Primary and secondary evidence also indicate that Nigerian banks reacted oligopolistically to foreign market entry by their rivals as entry by one bank into a particular market seemed to trigger swift entry into the same market by other rival banks in a manner that suggested a “bandwagon effect”.

This so called “bandwagon effect” may be the reason for the large concentration of Nigerian banks in some SSA countries.

Primary and secondary evidence showed that managerial intentionality was a “very important” strategic motivation for internationalization.

From the evidence, therefore, Proposition 1, which states that a bank’s desire to expand internationally will be influenced by a need to follow its clients into foreign markets, seek growth and profit opportunities, exploit its O-advantage, and fulfil the strategic aspirations of its managers, is largely supported.

6.1.2.

Proposition 2-

> **“A bank’s motivation to expand internationally will be influenced by home country regulations and competitive pressure in the domestic banking market.”**

The literature states that home country regulations by banking sector supervisors and the structure and competitiveness of domestic banking markets are among factors that determine banks’ foreign market entry decision (Cerrutti et al., 2007).

(q6.1) Home country regulations

Primary evidence shows that regulations by the CBN that permitted foreign market entry by Nigerian banks are an “important” factor in the decision to enter foreign markets. This item was found to be “not significantly different from average”

These regulations include the Universal Banking Guidelines that the CBN announced on December 12, 2000. These guidelines allowed Nigerian banks to obtain a universal banking licence which expanded the scope of activities in which the banks could engage, to include other financial and non-financial activities. The guidelines also permitted the establishment of international subsidiaries by banks (CBN, 2000).

Subsequently, Nigerian banks applied for and obtained licences from the CBN to expand into foreign markets. Diamond Bank was the first Nigerian bank to take advantage of the universal banking licence when it opened its first international subsidiary in Benin Republic in 2001.

Following the global financial crisis of 2008 that impacted heavily on the capital, asset quality and performance of Nigerian banks, the CBN in 2010 issued a new directive that increased the regulatory capital requirements of banks that sought international operations.

Nine Nigerian banks applied for international banking licences and after meeting regulatory requirements were categorised as international banks by the CBN (CBN, 2010)

(q6.2) Structure and competitiveness of the domestic banking market

Respondents stated that the structure and competitiveness of the Nigerian banking market was a “less important” factor that influenced their decision to expand internationally. This item was found to be significantly less than average at the 0.1.

Managers who were interviewed denied the notion that their foreign market entry was due to competitive pressure in the Nigerian banking market.

The structure and level of competition in the domestic market has been cited as influencing international market entry by banks. Banks in a very competitive domestic market might seek new markets for both profit and growth opportunities.

The structure and competitiveness of a banking market have been measured by concentration ratios and econometric models. Studies using concentration ratios seek to establish if profits in a market are a result of market power and collusion or efficiency engendered by competition. The ratio seeks to find out how much of the total banking assets are in the hands of the three (C3), five (C5) or ten (C10) biggest banks in a banking market. A low concentration ratio suggests a perfectly competitive market, while high concentration suggests a monopolistic structure. Empirical studies using concentration ratios of the ten largest banks in Nigeria found the banking market structure to be between these extremes, i.e. oligopolistic (Okulue et al., 2012)

Additionally, several empirical studies have also been carried out on the structure and competitiveness of banking markets in SSA, including Nigeria. These studies include Claessens and Leaven (2004); Bikker and Spierdijk (2008); Zhao and Murinde (2011). They used econometric models like Panzer Rosse H-statistics, the conjectural variation method and the DEA method to reach their conclusions to establish the level of competitiveness of several banking markets across SSA.

Table 6.14 Some empirical studies on the structure and competitiveness of Nigerian banking market

		Study period	Type of studies	Finding	Structure	Study focus
1	Claessens and Laeven (2004)	1994-2001	H-statistics	0.65	Oligopolistic	Competitiveness
2	Bikker and Spierdijk, (2008)	1989-	H-statistics	0.74	Oligopolistic	Competitiveness
3	Zhao and Murinde (2011)	2000-2007	Conjectural Variation method, H-Statistics		Oligopolistic	Consolidation improved performance efficiency and competition of Nigerian banks
4	Okulue et al. (2012)	2000-2010			Oligopolistic	Structure and profitability
5	Nwosu et al. (2012)	2000-2010	DEA		Oligopolistic	Consolidation and risk taking behaviour

The Nigerian banking market was found to be oligopolistic in almost all the studies. An oligopolistic market structure suggests that the Nigerian banking market is not monopolistic and neither is it perfectly competitive. Thus, the industry was not too concentrated to confer market power on a few banks and force others to seek new markets nor was it very competitive.

Thus, secondary evidence suggests that the structure of the Nigerian banking market might not have been a determining factor in the foreign market entry by Nigerian banks.

Conclusions on Proposition 2

Table 6.15 Primary and secondary findings on Proposition 2

P2: Interview Questions	**Primary Evidence**	**Secondary Evidence**	**Conclusions on P2**
q6.1 Home country regulations	Important	Consistent	**Consistent**
q6.2 Structure and competitiveness of home country banking market	Less Important	Contradictory	**Inconsistent**

Evidence shows that regulations by the CBN allowed Nigerian banks to embark on foreign market entry. International market entry was permitted by the guidelines on universal banking issued in 2000. A new guideline issued in 2010 increased the regulatory capital required by banks seeking international market entry. Nine banks were licensed to operate internationally by the CBN in 2010.

According to respondents the structure and competitiveness of the Nigerian banking market had “less importance” in influencing international expansion by some banks, thus partially contradicting P2.

Studies using the concentration ratio of the assets of the ten largest banks relative to the total assets of the industry suggest that the Nigerian banking market is competitive, with an oligopolistic structure.

Additionally, a series of empirical studies on the structure and competitiveness of Nigerian banks carried out between 2000 and 2009 found the Nigerian banking market to be oligopolistic.

An oligopolistic market structure suggests that the Nigerian banking market was not too sufficiently competitive to force some banks to seek new foreign markets.

Thus, with the evidence gathered, Proposition 2, which states that a bank’s motivation to expand internationally will be influenced by home country regulations and competitive pressure in the domestic banking market, is only partially supported.

6.2 Entry mode choice

This section presents the primary data that was collected regarding question 2 and how the data was analysed using the NDFA. Primary data was triangulated with secondary data collected from multiple sources.

<u>QUESTION 2</u>

How important are the following factors to your bank’s decision on mode of entry into new foreign markets?

Table 6.16 Frequency of responses on factors that influenced entry mode choice for question 2

Main Consideration	Item	Not important	Less important	Important	Very important	Extremely important	Total
1. Host country regulations	1.1. Regulations encouraging or restricting entry for foreign banks			1	10	9	20
	1.2. Regulations allowing other non-banking activities	1	4	4	7	4	20
2. Market attractiveness of host country	2.1. Same language and colonial heritage	3	4	3	8	2	20
	2.2. Common legal origin(similar legal codes)	3	5	4	7	1	20
	2.3. Geographic distance from Nigeria	7	10	2	1	0	20
	2.4. Level of development of banking in host country	1	5	10	4	0	20
	2.5. Reduced trade barrier due to regional integration (ECOWAS, New Partnership for African Development (NEPAD))	0	8	9	3	0	20
3. Risk profile of host country	3.1.Volatility of host country currency, inflation, and other economic risk factors	0	1	8	8	3	20
	3.2. Political risk in host country.	0	1	4	11	4	20
4. Host country institutional framework	Level of development of institutions (e.g. banking supervision, judiciary, credit rating agencies,)	0	1	8	8	3	20
5. Host country level of rule-based governance	Level of rule of law, corruption, property rights, creditor rights)	0	2	4	10	4	20
What other factors, in your opinion, influenced your bank's choice of mode of entry into a foreign market.							

(list of various responses)

1. Population of host country
2. Contribution of host country to Africa's GDP
2. Availability of well-trained human capital
3. Ease of entry

Applying the NDFA to Table 6.16, the following results were obtained as Table 6.17

Table 6.17 NDFA of Question 2: Tabulation of observed and expected responses and distribution parameters

	1.1	1.2	2.1	2.2	2.3	2.4	2.5	3.1	3.2	4	5		
Observed frequencies	1.1. Regulations encouraging or restricting entry for foreign banks	1.2. Regulations allowing other non banking activities	2.1. Same language and colonial heritage	2.2. Common legal origin(similar legal codes)	2.3. Geographic distance from Nigeria	2.4. Level of development of banking in host country	2.5. Reduced trade barrier due to regional integration (ECOWAS, New Partnership for African Development (NEPAD))	3.1.Volatility of host country currency, inflation, and other economic risk factors	3.2. Political risk in host country.	Level of development of institutions (e.g. banking supervision, judiciary, credit rating agencies,)	Level of rule of law, corruption, property rights, creditor rights)		
Not important	0	1	3	3	7	1	0	0	0	0	0		
Less important	0	4	4	5	10	5	8	1	1	1	2		
Important	1	4	3	4	2	10	9	8	4	8	4		
Very important	10	7	8	7	1	4	3	8	11	8	10		
Extremely important	9	4	2	1	0	0	0	3	4	3	4		
n =	20	20	20	20	20	20	20	20	20	20	20		
Distribution parameters													
μ =	**1.0237**	**0.1693**	**-0.1660**	**-0.3460**	**-1.2540**	**-0.4123**	**-0.4905**	**0.2618**	**0.5180**	**0.2619**	**0.4341**		
σ^2 =	**0.3403**	**1.1888**	**1.3456**	**1.0950**	**0.5164**	**0.3601**	**0.2506**	**0.4914**	**0.4805**	**0.4913**	**0.6390**		
Expected frequencies													
Not important	0.0	1.2	2.4	2.6	7.1	0.6	0.4	0.1	0.0	0.1	0.1		
Less important	0.0	3.4	4.4	5.2	8.9	6.4	7.2	1.9	0.9	1.9	1.6		
Important	0.9	4.6	4.7	5.3	3.3	8.7	9.7	5.8	4.2	5.8	4.6		
Very important	10.0	6.9	5.7	5.3	0.7	4.2	2.7	9.9	10.9	9.9	9.5		
Extremely important	9.0	3.9	2.8	1.7	0.0	0.1	0.0	2.3	4.0	2.3	4.1		
$\chi 2$ contributions													
Not important	0.0001	0.0376	0.1326	0.0550	0.0019	0.1885	0.3982	0.1105	0.0329	0.1103	0.1452		
Less important	0.0428	0.1246	0.0333	0.0044	0.1261	0.2934	0.0840	0.3988	0.0091	0.3983	0.0808		
Important	0.0032	0.0884	0.6364	0.2994	0.4951	0.2010	0.0468	0.8605	0.0057	0.8605	0.0842		
Very important	0.0002	0.0031	0.9330	0.5444	0.1719	0.0083	0.0351	0.3761	0.0012	0.3765	0.0222		
Extremely important	0.0001	0.0010	0.2068	0.2707	0.0106	0.1178	0.0150	0.1969	0.0001	0.1970	0.0007		
9.8783	0.0463	0.2547	1.9420	1.1739	0.8056	0.8091	0.5791	1.9427	0.0490	1.9427	0.3331	Chi-test p-value	1.0000
Solver parameters	$\tau 1$	$\tau 2$	$\tau 3$	$\tau 4$									
Thresholds	-1.5197	-0.6422	0.0608	1.0990									
Means	0.8154	0.1348	-0.1322	-0.2756	-0.9987	-0.3284	-0.3907	0.2085	0.4126	0.2086	0.3457		
Variances	0.2159	0.7541	0.8536	0.6946	0.3276	0.2284	0.1590	0.3117	0.3048	0.3117	0.4053		
To prevent division by zero:		0											
Hypothesis tests													
t-value	**7.8485**	**0.6942**	**-0.6399**	**-1.4787**	**-7.8035**	**-3.0728**	**-4.3817**	**1.6702**	**3.3421**	**1.6707**	**2.4286**		
p -value	**0.0000**	**0.4964**	**0.5303**	**0.1565**	**0.0000**	**0.0066**	**0.0004**	**0.1122**	**0.0036**	**0.1121**	**0.0259**		

The results reported in Table 6.17 are now summarised in Table 6.18

Table 6.18 Summary of values following analysis using the NDFA for Question 2

Item	n	μ	σ^2	Rank	t-value	p-value	Significance	Interpretation of degree of

								importance of factor
1.1. Regulations encouraging or restricting entry for foreign banks	20	1.02	0.34	1	7.85	0.0000	Significantly greater than average, at α = 0.01	Very Important
1.2. Regulations allowing other non banking activities	20	0.17	1.19	6	0.69	0.4964	Not significantly different from the average	Important
2.1. Same language and colonial heritage	20	-0.17	1.35	7	-0.64	0.5303	Not significantly different from the average	Important
2.2. Common legal origin(similar legal codes)	20	-0.35	1.10	8	-1.48	0.1565	Not significantly different from the average	Important
2.3. Geographic distance from Nigeria	20	-1.25	0.52	11	-7.80	0.0000	Significantly less than average, at α = 0.01	Less Important
2.4. Level of development of banking in host country	20	-0.41	0.36	9	-3.07	0.0066	Significantly less than average, at α = 0.01	Less Important
2.5. Reduced trade barrier due to regional integration (ECOWAS, NEPAD)	20	-0.49	0.25	10	-4.38	0.0004	Significantly less than average, at α = 0.01	Less Important
3.1.Volatility of host country currency, inflation, and other economic risk factors	20	0.26	0.49	5	1.67	0.1122	Not significantly different from the average	Important
3.2. Political risk in host country.	20	0.52	0.48	2	3.34	0.0036	Significantly greater than average, at α = 0.01	Very Important
4.Level of development of institutions (e.g. banking supervision, judiciary)	20	0.26	0.49	4	1.67	0.1121	Not significantly different from the average	Important
5. Level of rule of law, corruption, property rights, creditor rights)	20	0.43	0.64	3	2.43	0.0259	Significantly greater than average, at α = 0.05	Very important

The two propositions stated about factors that influence entry mode choice of banks are subsequently addressed.

6.2.1 Proposition 3

"A bank's choice of mode of entry into foreign market will be influenced by the host country's regulations and market attractiveness"

Q1. Host country regulations

Host countries may stipulate requirements to be fulfilled by foreign banks requiring entry into their markets. These regulations include capital requirements, ownership structure, organisational form, and permissible activities including establishing financial and non-financial subsidiaries.

Q1.1 Regulations permitting or restricting entry for foreign banks

Managers consider host country regulation to be "very important" in determining their entry mode choice. Analysis of the data showed that this item was "significantly greater than average at the 0.01 level of significance.

Several empirical studies have found the structure of banking markets in Africa to be monopolistic and not competitive (Sanya and Gaertner, 2012; Leon 2012; Zhao and Murinde, 2011).

Scholars have noted that most banking sector supervisors in SSA countries permit the entry of foreign banks into their countries as they seek greater efficiency, competition, financial intermediation and more private sector credit in their banking markets. Thus, in order to increase entries by foreign banks, most SSA countries have successfully implemented measures to liberalize state-controlled banking systems, restructure loss making institutions, write off non-performing loans, and improve governance and financial sector supervision (Florian, 2012). The notable exception in SSA is Ethiopia, which does not allow foreign banks entry.

Regulations for foreign banks include ownership structure, capital requirements, permissible activities, external auditing requirements, internal management and organisational requirements, liquidity and diversification requirements, depositors' protection schemes and provisioning requirements, among others (Barth et al., 2012)

Table 6.19 Some regulatory requirements for foreign banks seeking entry into select SSA, South American, Asian and OECD countries

	Regulator/ Requirement to operate	Regulatory capital adequacy regime/ Minimum risk based capital	Foreign banks allowed entry	Foreign banks are prohibited from entering through				Maximum % equity of local banks that can be acquired	Other activities allowed in bank or through subsidiaries
				Acquiring local banks	Branch	JV	Subsidiary		
Cameroon	-	-	-	-	-	-	-	-	-
Côte d'Ivoire	Ministry of Finance /Licence	Basel I/ 8%	Yes	No	Yes	No	No	100	Yes
Gabon	-	-	-	-	-	-	-	-	-
Gambia	Central Bank of Gambia / Licence	Basel 1/ 8%	Yes	No	No	No	No	80	Yes
Ghana	Bank of Ghana / Licence	Basel I/ 10%	Yes	No	Yes	Yes	No	100	Yes
Liberia	-	-	-	-	-	-	-	-	-
Kenya	Bank of Kenya/ Licence	Basel I/ 8%		No	No	No	No	100	Yes
Nigeria	CBN/ Licence	Basel I/ 10%	Yes	No	Yes	No	No	100	Yes
Sierra Leone	Central Bank of Sierra Leone /Licence	Basel I/ 15%	Yes	No	No	No	No	100	Yes
South Africa	Bank Supervision Department / License	Basel II/ 9.5	Yes	No	No	No	No	100	Yes
Argentina		Basel I/ 8%	Yes	No	No	Yes	No	100	Yes
Malaysia	Ministry of Finance/ Licence	Basel II/ 8%	Yes	No	Yes	No	No	30	Yes
UK	Office of Fair Trading/ Licence	Basel II/ 8%	Yes	No	No	No	No	100	Yes
USA	OCC for National banks/ Licence	Basel II/ 8%	Yes	No	No	No	No	100	No

Source: World Bank supervisory and regulatory data base (Barth et al., 2012)

Regulators, in some cases, specify organisational forms for banks seeking entry into their markets. For example, some countries do not allow bank branches (e.g. Ghana), while some others do not allow wholly-owned acquisitions of domestic banks by foreign banks. Some countries do not encourage entry as JVs.

Generally, most SSA regulators encourage foreign banks to establish retail subsidiaries (see Table 6.19).

Secondary evidence shows that ease of entry into many SSA markets has encouraged Nigerian banks to enter these markets with high equity subsidiaries. These requirements include low regulatory capital requirements, ownership terms, and laws to facilitate the repatriation of profits, among others.

Yet to emphasize the importance of host country regulations, interviewees pointed out that despite various applications, no Nigerian bank had been able to enter Angola by the end of 2012 due to regulatory challenges. Nigerian banks also face similar difficulties when trying to enter Mali.

A manager of UBA who was interviewed stated that:

> "Our bank set up an office in Mali but because we were not issued a licence by the Malian authorities, we could not operate. After three years in that country we were forced to close that office."

Regulations might also explain why many Nigerian banks have subsidiaries in the UK. With London as a global financial centre, the Office of Fair Trading in the UK grants consumer credit licences that facilitate the establishment of subsidiaries by international banks.

Q1.2. Regulations allowing other non-banking activities

Primary evidence suggests that this was an "important" determinant of entry mode choice. Analysis of the data shows that this item is not "significantly different from average"

Regulators in most of SSA permit or restrict foreign banks participation in other activities like insurance and securities, pension fund administration, asset management, real estate and non-financial activities.

In most countries, however, foreign banks are permitted to either participate in these activities directly or through subsidiaries (Barth et al., 2012). Indeed evidence shows that most Nigerian banks have only banking subsidiaries in their host countries.

Q2. Market attractiveness of host countries

Scholars have noted that a host country is attractive to a MNB if it shares similarities that help reduce the cost of entry and other transaction costs. These include cultural similarity, common legal origin, geographic proximity and reduced trade barriers due to regional integration.

Q2.1 Same language and colonial heritage

Respondents stated that sharing the same language with Nigeria, English, was an “important” factor that determined their entry mode choice though analysis of the data found this item to be “not significantly different from average”

Empirical studies have also found that MNBs have a high propensity to enter countries with high equity subsidiaries when the bank’s home and host countries share a common language. This is explained by economies of scale due to the sharing of common costs like staff training and marketing programs between parent banks and the foreign subsidiary (Buch, 2000; Buch 2003).

Galindo et al. (2003) and Buch and DeLong (2004) found a correlation between common language, common legal heritage and the cost of entry with foreign market entry mode choice.

Secondary evidence shows that most the Nigerian banks, except Diamond Bank, made their first entry into Anglophone West African countries (Sierra Leone, Gambia, and Ghana).

GTBank operated only in Anglophone countries for a decade before establishing its first Francophone subsidiary in Côte d’Ivoire in 2012. Additionally, the countries with the largest concentration of Nigerian banks, namely, Ghana, Gambia and Sierra Leone are mainly English speaking (see Table 6.20).

Table 6.20 International market entries by made Nigeria banks at the end of 2012 showing the language and colonial heritage of host countries

Host Country	Colonial heritage and legal origin	Year of first entry by a Nigerian bank	Nigerian banks in host country	Host Country	Colonial heritage and legal origin	Year of first entry by a Nigerian bank	Nigerian banks in host country
Benin Republic	France	2001	Diamond Bank, UBA	Kenya	United Kingdom	2009	UBA,
Burkina Faso	France	2008	UBA	Liberia		2008	GTB, UBA, Keystone
Burundi	Belgium	2008	Access Bank, UBA	Mozambique	Portugal	2010	UBA
Cameroon	France	2007	UBA	Rwanda	Belgium	2008	Access Bank
Chad	France		UBA	Senegal	France		Diamond Bank, UBA, Skye bank
China			First Bank	Sierra Leone	United Kingdom	2002	Access Bank, GTB, Zenith, Skye Bank, UBA, Keystone
Congo Brazzaville	France	2008	UBA	South Africa	United Kingdom		First Bank, Zenith Bank
Congo DRC	Belgium	2008	Access, First Bank, UBA	Tanzania	United Kingdom	2010	UBA
Côte d'Ivoire	France	2008	Diamond Bank, UBA, GTB, Access, Skye Bank	Togo	France	2011	Diamond Bank
France			UBA, First Bank	UAE			First Bank
Gabon	France	2009	UBA	Uganda	United Kingdom	2008	UBA, Keystone
Gambia	United Kingdom	2002	Access, GTB, Zenith Bank, Keystone, Skye Bank	UK		2007	FCMB, GTB, Zenith Bank, First Bank, Diamond Access UBA
Ghana	United Kingdom	2004	Access, UBA, GTB, Zenith Bank,	USA		1994	UBA
Guinea	France	2010	UBA, Skye Bank	Zambia		2008	Access Bank, UBA

Source: Annual reports and bank documents

However, Diamond Bank established the first international subsidiary of a Nigerian bank in Benin Republic, a French-speaking country bordering Nigeria, in 2001. The bank had all its international subsidiaries in four Francophone countries at the end of 2012.

In the same vein, many Nigerian banks have entered French and Portuguese speaking SSA countries with high equity brownfield or greenfield subsidiaries, but admittedly, entry into these countries was later than those into Anglophone countries.

But that is not to say there have not been problems for the Nigerian banks with subsidiaries in the Francophone and Lusophone countries. One manager interviewed stated that:

> "Our biggest challenge has been our subsidiary in Côte d'Ivoire. Their attitude to business is different from ours and managing that subsidiary has been most difficult mainly due to cultural problems."

Indeed these cultural dissimilarities might be one of the reasons some Nigerian banks are considering exiting Côte d'Ivoire and Congo DR.

Thus, even though a common language influenced entry into Anglophone SSA countries with high equity subsidiaries, entry into other markets with different languages was also by high equity brownfield and greenfield subsidiaries.

Q2.2 Common legal origin and entry mode strategies

Primary evidence shows that managers considered common colonial and legal origin to be "important" in their choice of entry mode. Analysis of the response by managers found this factor to be "not significantly different from average".

Empirical studies by Galindo et al. (2003) and Buch and DeLong (2004) found that banks from home countries with a common legal origin with the host country enter by establishing subsidiaries due to reduced entry and transaction costs.

Most SSA countries were colonised by the UK, France, Portugal or Spain and thus derive their legal codes from these colonial countries. Most English speaking SSA countries, like Nigeria, derived their legal codes from the UK.

Secondary evidence shows that Nigerian banks have more subsidiaries in countries with the same legal origin as Nigeria, namely Ghana, Sierra Leone, and Gambia. However, entry into countries with different legal origin in SSA has also been through high equity subsidiaries. This includes Côte d'Ivoire (French), with six Nigerian banks subsidiaries, Mozambique (Portuguese), and Congo DRC.

Thus, regardless of legal origin, Nigerian banks have entered almost every market in SSA markets almost exclusively as high equity subsidiaries, either by the acquisition of a majority of the equity of a local bank or by greenfield establishment.

Q2.3 **Geographic distance**

Managers stated that geographic distance between Nigeria and host countries was "less important" consideration in their entry mode decisions. Indeed, this item was found to be "significantly less than average at the 0.01 level".

However, other studies have found that banks are more likely to establish subsidiaries in host countries that are proximate to their home countries (Cerrutti et al. 2007). It is argued that due to uncertainties, banks would enter more distant markets with low equity representative offices or branches. Other studies have pointed out that banks adopt a-wait-and-see outlook that influences entry as representative offices in geographically distant countries (Nacken et al., 2012)

Secondary evidence shows that Nigerian banks made entry into countries in all regions of SSA, except South Africa, mainly by high equity subsidiaries. While some of the banks have all their subsidiaries in countries within the West African sub-region (GTBank, Diamond Bank), others, including UBA, Access and Keystone Banks established greenfield and brownfield subsidiaries in more distant countries in Central, Eastern and Southern Africa, including Zambia, Tanzania, Mozambique and Rwanda.

On the other hand, entry into other global regions, including Asia (China) and the Middle East (United Arab Emirates) by Nigerian banks, has been mainly by the establishment of low equity representative offices. Entry into UK and Europe has been by subsidiaries.

Thus, geographic distance between Nigeria and many SSA countries did not seem to deter Nigerian banks, as entry into all regions of SSA was through high equity commitment brownfield and greenfield subsidiaries. But in other more distant countries and regions of the world, entry was by low equity representative offices.

Q2.4 Level of development of a host country banking market

Respondents noted that the level of development of a host country's banking market was " less important" in their choice of entry mode into the host market as this item was also found to be "significantly less than average at the 0.01 level." Interviewees noted that low level of development of host country banking markets presented opportunities for growth and profits.

Focarelli and Pozzolo (2001) and Buch and DeLong, (2004) found that banks from more developed banking markets are likely to expand into less developed markets as subsidiaries.

Table 6.21 Level of financial access and efficiency of some SSA, South American, Asian and OECD countries

Country	Financial access				Domestic credit provided by banking sector as a percentage of GDP (2010)	Interest rate spread (Proxy for efficiency)
	Depositors with commercial banks/ 100000 adults	Creditors with commercial banks/ 100,000 adults	Banks branches/ 1000000 adults	ATM / 1000000 adults		
Cameroon	72	17	1.4	1.40	9-0	-
Côte d'Ivoire	-	-	-	-	25.1	
Gabon	95	46	4.7	8.62	10.2	-
Gambia	-	-	-	-	45.4	12.4
Ghana	324	33	5.0	-	28.5	-
Kenya	370	73	4.4	7.27	51.0	9.8
Liberia					148.9	10.1
Nigeria	-	-	-	-	36.3	11.1
Sierra Leone	190	12	2.9	0.43	18.4	12.3
South Africa	976	415	10.1	59.58	182.2	3.4
Argentina	702	285	13.3	42.5	29.2	1.4
Malaysia	1,458	280	10.4	46.38	132.2	2.5
UK	-	-	25.5	64.58	222.6	-
US			35.7	173.75	202.2	-

Source: World Bank World Development Indicators (WDIs) (2012)

Studies have found that most SSA countries have low financial depth and inefficient domestic banks. Domestic credit provided by the banking sector as a share of GDP measures banking sector depth and financial sector development in terms of size and these measure are low in most SSA countries (Allen et al., 2010; Kiyota, 2011).

Data covering depositors and borrowers and other outreach data, like the number of bank branches and ATMs per 100,000 persons, also show the low financial depth of most SSA financial markets (Table 6.21).

Kasekende et al. (2009) noted that, following the consolidation program of 2005, the Nigerian banking market became the second most developed market in SSA after South Africa.

Secondary evidence shows that Nigerian banks entered most SSA banking markets by establishing brownfield or greenfield subsidiaries. On the other hand, entry into South Africa, which has a much more developed and sophisticated banking market than Nigeria, was by low equity representative offices, made by the two largest banks in Nigeria, namely First and Zenith Banks.

Interestingly, none of the banks in the case studies have made an entry into South Africa.

Q2.5 Trade barriers

Primary evidence found reduced trade barriers were a "less important" consideration for banks in their entry mode decisions. This item was found to be "significantly less than average at the 0.01 level."

Empirical studies have found that regional integration and a lowering of trade barriers between a bank's home and host countries reduce entry costs and encourage the establishment of subsidiaries by banks.

Within West Africa, integration has been promoted through the ECOWAS. Furthermore, there are two distinct blocks encouraging financial integration, namely West African Economic and Monetary Union (WAEMU) made up of seven Francophone West African countries that share a common currency and common banking regulations. The other is the West African Monetary Zone (WAMZ) made up mainly Anglophone West African countries and Guinea Conakry. Other regional mechanism to facilitate inter-African trade and financial integration include New Partnership for African Development (NEPAD).

Secondary evidence shows that besides the ECOWAS region, Nigerian banks still entered countries in other regions of SSA where they did not have the benefit of reduced trade barriers including the East African Economic Community, Central African Economic Committee and South African Development Community with high equity entry modes.

Entry by Nigerian banks into all these other regions was by brownfield or greenfield subsidiaries. Thus, non-membership of other regional blocks, as well as trade barriers, did not seem to deter high commitment equity entry mode by Nigerian banks into countries in these regions of SSA like Kenya, Zambia, Rwanda and Congo DRC.

Conclusions on Proposition 3

Table 6.22 Primary and secondary findings on Proposition 3

P3: Interview Questions	**Primary Evidence**	**Secondary Evidence**	**Conclusions on P3**
Q1.1 Regulations	Very important	Confirmatory	**Consistent**
Q1.2 Other Activities	Important	Confirmatory	**Consistent**
Q2.1 Same Language	Important	Mixed	**Insignificant**
Q2.2 Common legal origin	Important	Mixed	**Insignificant**
Q2.3 Geographic distance	Less important	Contradictory	**Inconsistent**
Q2. Depth of host country banking market	Less important	Mixed	**Insignificant**
Q2.5 Trade barriers	Less important	Contradictory	**Inconsistent**

A bank's entry mode choice into a foreign market has been found to be significantly influenced by the regulations of host countries. The organisational form for entry is sometimes stipulated and evidence shows that most SSA regulators favour the establishment of retail subsidiaries by foreign banks.

Additionally, the scope of activities that regulators permit foreign banks to engage in can influence their entry mode choice. Nigerian banks entered most markets in SSA by the establishment of high equity brownfield or greenfield subsidiaries, mainly because host country regulators had policies that eased entry for foreign banks. The entry mode choice of Nigerian banks was not influenced by whether they were permitted by host country regulators to engage in other financial and non-financial activities.

Host country factors that reduce transaction and entry costs and makes a country attractive to foreign banks seem to have had little influence on the entry mode choice of Nigerian banks as entry into most SSA markets was by high equity subsidiaries regardless of factors that might increase entry cost.

This was the case whether the host country shared the same language with Nigeria or not. Entry into French and Portuguese speaking SSA countries were by the establishment of high equity brownfield or greenfield subsidiaries.

In the same vein, differences in the origins of legal codes between Nigeria and host countries were expected to lead to low equity entry by Nigerian banks. Yet entry into countries with different legal origins to Nigeria was also by high equity subsidiaries and not by low commitment entry mode as most empirical studies had found and predicted.

The level of development of a host country's banking market also influences entry mode choice. As Focarelli and Pozzolo (2001) found that banks from countries with more developed banking markets enter countries with less developed banking markets with subsidiaries. Similarly Nigerian banks, being from a more developed banking market than most SSA countries, entered SSA banking markets by establishing subsidiaries while entry into the sophisticated South African market was by low equity representative offices.

Entry by Nigerian banks into geographically distant countries was dichotomous. Despite distance between host countries and Nigeria, entry in SSA was mainly by high equity subsidiaries rather than the low equity entry modes predicted in several empirical studies, while in other regions like Asia and Middle East, entry was by low equity representative offices. Additionally, it was found that trade barriers in other regions of SSA did not stop Nigerian banks from entering with high equity subsidiaries into regions with trade barriers.

Thus, from the data, some factors that influence entry mode choice were found to be consistent and others inconsistent with the Proposition 3, and yet others were insignificant. Regulations in the host country that eased entry for foreign banks and the level of development of host banking market seem to have encouraged Nigerian banks to establish subsidiaries in most SSA countries. On the other hand differences in language, colonial heritage, legal origin and high geographic distance, between Nigeria and host countries and the existence of trade barriers did not limit entry by Nigerian banks to low commitment modes of entry as predicted by theory. This can be explained by the fact that banks may view host countries in SSA as similar markets with similar levels of entry and transaction costs. On the other hand, the ease of entry and high profitability of most SSA banking markets might offset entry and transaction costs and thus encourage entry as high equity subsidiaries.

Thus, from the findings, Proposition 3, which states that "a bank's choice of mode of entry into foreign market will be influenced by the host country's regulations and market attractiveness", is only partially confirmed**.**

6.2.2. Proposition 4

> **A bank's choice of mode of entry into a foreign market will be influenced by the level of environmental uncertainty in the host country.**

Studies have linked a country's level of environmental uncertainty as influencing the entry mode choice of MNB. Environmental uncertainty is measured by the country risk, the level of development of institutions and the level of rule-based governance in host countries.

Q3 Host country risk profile

Country risk is composed of many sub-measures including the macroeconomic stability and political risk of the host country.

Q3.1 Volatility of host country currency, inflation, and other macroeconomic variables

Respondents considered host country economic stability to be an "important" factor when considering their entry mode choice. This item was found to be "not significantly different from average"

Table 6.23 Indicators of macroeconomic stability and political risk in selected SSA, South America, Asian and OECD countries

Country	Country Risk Indicators						
	Indicators of Macroeconomic stability				Indicators of Political Risk in host country		
	GDP / capita (2012) Billions of Dollars	Real GDP growth rate(2012)	Current account balance Billions of Dollars (2012)	Inflation rate %	Political stability and threat to violence. -2.5(low) to 2.5(high)	Voice and accountability (2008) -2.5(low) to 2.5(high)	Political risk index (0-10)
Cameroon	2,400	4.70	-0.95	2.90	-0.53	-1.02	5
Côte d' Ivoire	1,800	9.80	-1.08	1.30	-1.95	-1.24	3.5
Gabon	16,800	6.20	3.75	2.70	0.23	-0.85	5
Gambia	1,900	3.90	-0.16	4.70	0.14	-0.97	4.5
Ghana	3,400	7.00	-4.56	9.20	0.06	0.48	7
Liberia	700	8.30	-0.59	6.90	-0.99	-0.23	5
Kenya	1,800	4.70	-3.95	9.40	-1.25	-0.16	5.5
Nigeria	2,800	6.30	6.16	12.2	-2.01	-0.60	4.5
Sierra Leone	1,400	19.80	-0.97	12.9	-0.21	-0.28	4.5
South Africa	11,600	2.50	-21.33	5.70	0.06	0.68	8
Argentina	18,400	1.9	1.43	25.30	-0.04	0.32	7
Malaysia	17,200	5.6	22.8	1.70	0.13	-0.58	8
UK	37,500	0.20	-57.70	2.80	0.56	1.33	9
USA	50, 700	2.20	-487.2	2.10	0.59	1.12	9

Source: CIA World Factbook, Governance Matters III, WDI, Country Watch

Macroeconomic stability is a function of variables such as the country's GDP per capita, real GDP growth, annual inflation rate, budget balance and current account balance (Cerrutti et al., 2007; Allen et al., 2010).

Data indicates that most SSA countries have volatile macroeconomic environments, with poor current account positions and relatively high inflation rates. Real GDP growth rates on the other hand are relatively high (see Table 6.23).

Over the past decade, however, the macroeconomic outlook in most SSA countries has improved due to reduced debt, increases in commodity prices, and the discovery of new reserves of natural resources. Data shows that economic volatility in Nigeria, with its relatively high inflation rates, is similar to average values in most SSA countries.

Cerrutti et al. (2007) found that banks prefer entering countries with high economic instability as subsidiaries rather than branches. The explanation is that banks seek to "ring fence" their parent company from economic volatility in the host country.

However, secondary evidence shows that Nigerian banks entered most countries in the SSA with high equity subsidiaries. This was despite the fact that some of the host countries entered have a relatively risky macroeconomic outlook.

These countries include Liberia, Gambia, and Sierra Leone which host a large concentration of Nigerian bank subsidiaries, despite the volatile state of their economies.

Q3.2. Political risk profile of host country

Managers noted that political risk in host countries was a "very important" factor that determined their bank's entry mode choice. Analysis of the responses of managers showed this item to be "significantly greater than average at the 0.01 level".

Other studies have found that entry by MNBs into host countries with political risky environments is usually by low equity modes of entry like representative office and branches (Cerrutti et al., 2007).

Data on the political risk in host countries was obtained from The Political Risk Index database maintained by Country Watch. The index is calculated using an established methodology by Country Watch based on various criteria including political stability; political representation; democratic accountability; freedom of expression; security and crime; risk of conflict; human development; jurisprudence and regulatory transparency; economic risk; and corruption.

Scores are assigned from 0-10. A score of 0 marks the highest political risk, while a score of 10 marks the lowest political risk. Stated differently, countries with the lowest scores pose the greatest political risk.

Additionally, data for political risk in a host country also can be obtained from a database on country governance indicators maintained by Kaufmann et al. (2009). Measures like political stability and threat of violence and voice and accountability, measure the degree of likelihood of conflict and democratic participation and freedom of expression in various countries.

Data from the Political Risk Index and World Governance Indicators III show that most SSA countries have low levels of political stability. Yet evidence over the past decade shows improvement. After several decades of political conflict, most SSA countries are now democracies that encourage free enterprise and rule of law. Even then, some countries, like Guinea, Côte d'Ivoire and Congo DRC have lapsed into political and military conflict in recent times. Generally, indicators of political risk show that values in Nigeria and most SSA countries are relatively similar (see Table 6.23).

Secondary data shows that Nigerian banks have entered into markets in SSA with high equity subsidiaries regardless of the level of political risk in the host country. Access and First Banks both entered Congo DRC by acquiring a majority stake in local banks.

Entry into Côte d'Ivoire by Nigerian banks has also been through high equity greenfield subsidiaries despite recent political crisis in the country. GTBank made its second largest investment in a foreign subsidiary when it entered Liberia in 2009 despite its risky political environment.

Q4. Level of development of institutions

Managers consider the institutional development of host country to be "important" in their entry mode decisions as the analysis of the responses found this item to be "not significantly different from average".

The level of development of host country institutions influences mode of entry by foreign banks. These institutions help limit the cost of gathering information on borrowers as well as protect the rights of creditors.

These institutions include credit rating agencies and the judiciary (Nacken et al., 2012; Buch, 2003; Santagenlo and Meyer, 2011). Measures of the development of institutions include credit information indices, legal rights indices and property rights indices.

Table 6.24 Indicators of institutional development in some selected SSA, South America, Asian and OECD countries

Country	Legal rights index 0-10 (weak to strong) June 2011	Credit information 0-6 (low to high) June 2011	Property rights and rule-based governance 0-6 (low to high (2010)
Cameroon	6	2	2.5
Congo DR	3	0	2.0
Côte d'Ivoire	6	1	2.0
Gabon	6	2	NA
Gambia	5	0	3.0
Ghana	8	3	3.5
Kenya	10	4	2.5
Liberia	7	1	2.5
Nigeria	9	0	2.5
Sierra Leone	7	0	2.5
South Africa	10	6	NA
Argentina	4	6	
Malaysia	10	6	
UK	10	6	
US	9	6	

Source: World Bank's WDIs (2012)

Buch and DeLong (2004) found that countries with highly developed institutional frameworks attract high commitment entry (subsidiaries) from foreign banks and countries with low levels of institutional development, attract low levels of commitment (e.g. representative offices)

The availability of institutions that offer borrower information in host countries is measured by the credit information index. This index measures rules affecting the scope, accessibility and quality of information available through public and private credit registries. Higher values indicate a greater availability of information.

Additionally, the strength of the legal rights index measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending. Higher values indicate that the laws are better designed to expand access to credit (WDI, 2012)

Another measure of the level of development of institutions in host country is the property rights index. This index assesses the extent to which private economic activity is facilitated by an effective legal system and governance structure in which property and contracts rights are reliably respected and enforced (see Table 6.24).

Evidence shows that values of these measures reflecting levels of development of these institutions in SSA are relatively lower than in developed countries. But values of credit information, legal and property rights are similar for most SSA countries. Secondary evidence shows that these values of institutional development for Nigeria are similar to those of most SSA countries.

Secondary data shows that Nigerian banks entered most of the countries of SSA with high equity subsidiaries despite the low levels of development of institutions in these host countries.

Q5. Level of development of rule-based governance

Respondents considered the level of rule-based governance development of host country to be "very important" in their entry mode decisions. Analysis of the data found this item to be "significantly greater than average at the 0.05 level".

Studies have found that the level of rule-based governance in a host country also influenced entry mode choice by MNBs in a host market (Outreville, 2007). Scholars have used measure of governance from a database compiled by Kaufmann et al. (2009).

This database compiles and measures six governance indicators, namely, voice and accountability, political stability and absence of violence/terrorism, government effectiveness, and regulatory quality, rule of law and control of corruption. The database covers 212 countries and contains information from 35 sources provided by 33 organisations. Values of these governance indicators range from -2.5 to 2.5. Data shows that rule-based governance is generally low in SSA but even lower in Nigeria. The measure indicating the effectiveness of government, rule of law and control of corruption indicate that in most cases, the Nigerian context is worse than most SSA countries.

Table 6.25 Governance indicators of some selected SSA, South America, Asian and OECD countries for 2008

	Voice and accountability	Political stability/ threat to violence and terrorism	Government effectiveness	Regulatory quality	Rule of law	Control of corruption
Cameroon	-1.02	-0.53	-0.8	-0.66	-0.99	-0.90
Côte d' Ivoire	-1.24	-1.95	-1.39	-0.93	-1.52	-1.17
Gabon	-0.85	0.23	-0.70	-0.65	-0.62	-1.07
Gambia	-0.97	0.14	-0.77	-0.44	-0.25	-0.48
Ghana	0.48	0.06	-0.08	0.08	-0.10	-0.06
Liberia	-0.23	-0.99	-1.36	-1.32	-1.23	-0.60
Kenya	-0.16	-1.25	-0.60	-0.07	-0.98	-1.01
Nigeria	-0.60	-2.01	-0.98	-0.63	-1.12	-0.98
Sierra Leone	-0.28	-0.21	-1.13	-0.86	-1.03	-1.07
South Africa	0.68	0.06	0.75	0.63	0.12	0.16
Argentina	0.32	-0.04	-0.18	-0.65	-0.67	-0.47
Malaysia	-0.58	0.13	1.13	0.27	0.41	0.01
UK	1.33	0.56	1.74	1.79	1.68	1.77
USA	1.12	0.59	1.65	1.58	1.65	1.55

Source: Kaufmann, Kraay and Mastruzzi (2009), Governance matters III

Regulatory quality measures the ability of regulators to formulate and effectively enforces regulatory laws. From the data, the values of these measures are similar between most SSA countries, except South Africa, which in some cases has values of governance closer to OECD countries. Buch (2003) found that host countries with high levels of regulatory development encourage entry by international banks as subsidiaries.

Despite the low levels of governance in SSA, secondary data indicates that Nigerian banks entered different countries in SSA with high equity brownfield and greenfield subsidiaries. Managers interviewed noted that institutional development and governance levels of most SSA countries and Nigeria were similar and did not particularly deter entry as subsidiaries.

Nevertheless, some interviewees pointed out that with the benefit of hindsight, entry into some SSA countries would have been better considered due to the weakness of the judiciary and low levels of rule of law. Managers cited Liberia as a host country with extremely difficult governance conditions. One manager stated that:

> "In Liberia some of our workers connived to steal the bank's money and it was almost impossible to get the police to prosecute them. If we had known how challenging their legal system is, we might have been more cautious on how we entered that country."

Conclusions on Proposition 4

Table 6.26 Primary and secondary findings of Proposition 4

P4: Questions	**Primary Evidence**	**Secondary Evidence**	**Conclusions on P4**
Q3.1 Macroeconomic stability	Important	Contradictory	**Inconsistent**
Q3.2 Political risk	Very Important	Contradictory	**Inconsistent**
Q4 Level of development of institutions	Important	Contradictory	**Inconsistent**
Q5 level of development of rule-based governance	Very Important	Contradictory	**Inconsistent**

Environmental uncertainty in a host country is due to many factors including the host country's risk profile, the level of development of institutions and the level of rule-based governance. Country risk due to macroeconomic instability and political risk in host countries was mentioned by interviewees to be important factors that determined entry mode choice by banks. Interviewees stated that the level of economic and political risk in a host country influenced their bank's choice of entry mode.

Secondary evidence shows that entry into almost all SSA countries by Nigerian banks was by high equity brownfield and greenfield subsidiaries despite the level of environmental uncertainty due to macroeconomic volatility and the level of political stability in the host country.

Several empirical studies have found that the level of development of institutions and rule-based governance in host countries influence foreign banks' entry mode choices. Entry as high commitment subsidiaries by MNBs is found to be higher in countries with high levels of development of institutions and rule-based governance (Buch, 2003; Outreville, 2007).

Evidence shows that while managers found these factors to be important in making their entry decisions into many host markets, Nigerian banks entered almost every country in SSA with high equity brownfield and greenfield subsidiaries. This is despite the low level of development of institutions and rule-based governance, as well as a high level of corruption, in most of these countries.

Managers interviewed pointed out that the institutional and governance challenges in host markets are familiar to them as these factors are similar to those in Nigeria. Indeed, secondary evidence shows that measures of institutional development and rule-based governance are similar to, if not worse than, those in Nigeria.

Studies have found that MNB from home countries with similar levels of institutional and rule-based governance with host countries will most likely enter with high equity commitment subsidiaries (Claessens and van Horen, 2008).

Thus, despite the level of institutional and rule-based governance in SSA, Nigerian banks still entered these host markets with high equity entry modes.

Some studies that have found that MNBs enter countries with high levels of environmental uncertainty with low equity entry modes like representative offices and branches. Another set of studies have also noted that MNE enter countries with high environmental uncertainty with high commitment entry mode presumably to limit transaction costs and uncertainty.

Despite the high levels of environmental uncertainty in SSA, Nigerian banks entered every market in SSA with high equity brownfield and greenfield subsidiaries. This is inconsistent with Proposition 4.

One logical explanation would be that Nigerian banks operate in a home market that shares similar levels of environmental uncertainty with most SSA countries due to similar levels of macroeconomic instability, political risk, levels of development of institutions and levels of rule-based governance.

From the evidence therefore, the proposition that "a bank's choice of mode of entry into a foreign market will be influenced by the level environmental uncertainty in the host country" would have to be modified to state that "a bank's choice of mode of entry into a foreign market will be influenced by the level environmental uncertainty in the host country, unless the foreign banks are from countries that share similar levels of environmental uncertainty with the host country."

6.3 Summary

This research has examined the internationalization of Nigerian banks. The motivation for foreign market entry and the entry mode adopted by the banks has been examined extensively.

Prominent in the internationalization of Nigerian banks have been shifts in home country regulations, allowing foreign market entry and the consolidation program of 2005 which increased the tier 1 capital requirement and the assets of the banks.

In 2000 the CBN announced guidelines for licensing banks for universal banking. The universal banking model increased the scope of activities banks could undertake and permitted banks to embark on foreign market entry.

Diamond Bank was the first Nigerian Bank to establish a foreign retail subsidiary when it entered Benin Republic in 2001. In 2002 GTBank entered Sierra Leone and Gambia, and UBA entered Ghana in 2004, but international market entry by Nigerian banks entered an explosive phase following consolidation in 2005.

Between 2006 and 2010, no fewer than 11 Nigerian banks embarked on international market entries. Over 20 countries were entered, mainly in SSA. In all the entries, the preferred mode of entry was by the high equity commitment brownfield acquisition of host country domestic banks or by greenfield establishment. All the international subsidiaries were retail subsidiaries.

Thus, it can then be argued that the consolidation of the Nigerian banking market was one of the main drivers of international market entry by Nigerian banks. Besides this effect of consolidation on bank internationalization, this research has addressed other motivations behind foreign bank expansion.

Findings of research and revisions to propositions

This research has found some measure of inconsistency between the propositions that were declared at the beginning of the research and the findings from the primary and secondary evidence gathered. In line with the positivist case study, these propositions may be revised or modified.

Proposition 1

> **"A bank's motivation to expand internationally will be influenced by a need to follow its clients into foreign markets, seek growth and profit opportunities, exploit its O-advantage, and fulfil the strategic aspirations of its managers."**

Primary and secondary evidence has found that foreign market entry by Nigerian banks was driven mainly by managerial intentionality, client-following, exploitation of the tangible and intangible assets that the banks possessed and profit opportunities in most SSA banking markets.

Internationalization was a deliberate strategic objective of Nigerian banks to become dominant players in the financial services sector in Africa. Africa became the strategic scope of most Nigerian banks and strategic mission and vision statements were focused on the African banking market.

Additionally, Nigerian banks possessed tangible and intangible assets that they sought to exploit in SSA markets and which helped them to overcome the liability of foreignness. These assets include: bank's size and capital; reputation and brand name; management skills; credit appraisal know-how; and technological assets.

Regarding profit opportunities in the host countries, some factors that previous studies had identified as being important in determining foreign market entry by MNBs were found to be less important to Nigerian banks in their foreign market entry decisions. Arbitrage from differentials in interest, exchange and tax rates between home and host countries were found to be less important, while the profitability of the host country banking market was found to be important

Evidence on the strategic motivation for foreign market entry show that banks found the diversification of risk and the need to respond to competitors' actions to be "important" regarding foreign market entry. But managerial intentionality on the other hand was found to be "very important". Managerial intentionality was manifested by the desire of Nigerian banks to be dominant financial services providers across Africa.

Proposition 1 was found to be largely supported. But, on the evidence gathered therefore, the proposition has been reordered to reflect the most important factors that prompted foreign market entry by the banks.

Thus Proposition 1 can therefore be revised (changes in italics) to suggest that:

"A bank's motivation to expand internationally will be influenced by a need to follow its clients into foreign markets, *seek profit opportunities in hosts banking markets*, and fulfil the strategic aspirations of its managers.

Proposition 2

> **"A bank's motivation to expand internationally will be influenced by home country regulations and competitive pressure in the domestic banking market"**

Evidence shows that home country regulations were important in determining foreign market entry. On the other hand competitive pressure in the home country banking market was found to be less important. Thus Proposition 2 was only partially supported.

This seems to be because several empirical studies have found the Nigerian banking market to have an oligopolistic structure. An oligopolistic market structure suggests that the Nigerian banking market was not monopolistic and neither was it competitive enough to force some banks to seek new foreign markets.

Furthermore, evidence shows that there is still significant scope for growth in the Nigerian banking market. Credit to the private sector as a ratio to GDP, which measures the development level of a banking market, is relatively low in Nigeria, indicating that there is still a large gap to fill by Nigerian banks in their home market. Such evidence shows that foreign market entry would not have been due to competition and saturation of the home country banking market.

Thus, though home country regulations encouraged internationalization, the effect of market structure and competition was found to be less important in motivating foreign market entry. The insignificant influence of the home country conditions may therefore be due to the oligopolistic market structure and the low level of financial development of the Nigerian banking market.

From the evidence therefore, Preposition 2 is therefore revised to suggest that:

"A bank's motivation to expand internationally will be influenced by home country regulations and competitive pressure in the domestic banking market, ***unless the banks are from home countries with low levels of financial development."***

Proposition 3

> **"A bank's choice of mode of entry into foreign market will be influenced by the host country's regulations and market attractiveness"**

It was found that host country regulations were very important in determining the entry mode choices of banks.

Host countries were found to be attractive due to factors that reduce transaction and entry costs. Yet this research has shown that there were differences between the primary and secondary evidence regarding some of the factors and their importance in determining entry mode choice.

Primary evidence has shown that Nigerian banks found the same language and colonial heritage, common legal origin, the level of development of the host country banking market and reduced trade barriers, to be important factors that determined their entry into foreign markets, while geographic distance was also found to be less important. On the other hand, secondary evidence shows that Nigerian banks entered SSA banking markets with high equity subsidiaries despite difference in language and legal origin, geographic distance, and the existence of trade barriers.

Thus from the evidence, Proposition 3 was only partially supported.

The reasons for this might be due to the similarity of physical and institutional development between Nigeria and most SSA markets. In this respect, Nigerian banks might view SSA host countries as sharing similar levels of transaction costs to their home market.

Furthermore, the profitability of SSA banking markets might be a strong factor in attracting Nigerian banks. Studies have noted that SSA banking markets are the most profitable in the world in terms of their ROA and ROE (Flamini et al., 2009).

Thus, profits in the host country might over time offset entry and transaction costs for foreign banks. Furthermore, the tangible and intangible assets that Nigerian banks possess might confer on them such an advantage as to overcome the liability of foreignness and high entry and transaction costs.

As earlier stated, these assets include a bank's size and capital, reputation and brand name, management skills, credit appraisal know-how, and technological assets. The effects of these assets on the efficiencies of the banks has been estimated by Kiyota (2011), who found that MNBs from SSA countries have cost and profit efficiencies over domestic banks in host countries.

From the evidence therefore, Proposition 3 can be revised to state:

***"If a host country's banking market is highly profitable and a foreign bank possesses significant O-advantages,* its choice of mode of entry will be influenced by the host country's regulations*, but may not be affected by its limited market attractiveness*".**

Proposition 4

> **"A bank's choice of mode of entry into a foreign market will be influenced by the level of environmental uncertainty in the host country."**

The environmental uncertainty in a host country increases entry and transaction costs. Yet despite SSA banking markets having high levels of environmental uncertainty, Nigerian banks entered these markets with high equity commitment entry modes.

Several empirical studies have found that the macroeconomic instability, political risk, level of development of institutions and rule-based governance in host countries influence foreign banks' entry mode choice.

Entry as high commitment subsidiaries by MNBs is found to be higher in countries with high levels of development of institutions and rule-based governance (Buch, 2003; Outreville, 2007). However, Claessens and van Horen, (2008) found that banks from countries with similar physical and institutional levels of development to a host country have a comparative advantage over other foreign banks in the host country.

Managers interviewed pointed out that the institutional and governance challenges in host markets are familiar to them, as these factors are similar to those in Nigeria.

Indeed, secondary evidence shows that measures of institutional development and rule-based governance in Nigeria are similar to, if not worse, than those in other SSA countries. Most SSA markets have little information on borrowers, and low levels of creditor and property protection rights.

Additionally, environmental uncertainty may include contractual risk between the banks and its customers, i.e. uncertainty that it is susceptible to contracting arrangements. Contractual risk may be reduced by high-commitment entry modes.

One of the obvious ways of mitigating contractual risk is relationship banking. Entering a foreign market as retail subsidiaries help the banks to mobilise information on customers and develop relationships. This helps banks identify borrowers that have both the capacity and willingness to pay back loans and thus militate against legal challenges in countries with weak judicial and legal institutions.

Relationship banking thus required Nigerian banks to enter markets as retail subsidiaries and also establish large branch networks which secondary evidence has shown to be the case with Nigerian banks in many SSA countries.

Furthermore, it was found that Nigerian banks sought to exploit their tangible and intangible assets in most SSA markets. These assets include unique management processes and capabilities, risk appraisal know-how, reputation and technology.

Empirical studies have shown that these intangible assets help MNBs from SSA countries like Nigerian and South Africa to have cost and profit efficiencies over domestic banks (Kiyota, 2011). It becomes obvious that the best way to exploit these assets would be by internalization, hence the need to enter into foreign markets with retail subsidiaries.

The need to transfer these processes and management know-how to bank staff in host countries might create the need for increased control which is usually associated with high equity commitment. This way the bank can direct, control and monitor staff behaviour and performance to conform to the culture and corporate objectives of the bank.

Additionally, Nigerian banks might have sought to protect their tangible and intangible assets by internalising their operations in foreign markets, especially in markets where environmental uncertainties created high transaction and entry costs. This is done by establishing greenfield subsidiaries or acquiring controlling stake in a local banks.

Thus, Proposition 4 can be modified to state:

"A bank's choice of mode of entry into a foreign market will be influenced by the level of environmental uncertainty in the host country, *unless the foreign banks possess significant O-advantages and are from countries that share similar levels of environmental uncertainty with the host country*"

A final chapter reflects on these results and revised propositions and considers their possible contributions, significance and limitations.

CHAPTER 7

CONCLUSION

This final chapter reflects on the results of the research and considers their possible contributions, significance and limitations. It comprises a reviews of the research philosophy, approach and methodology adopted for this study; of internationalization theories and how the findings tally with these theories; of the findings regarding the propositions and the modifications to the propositions; the implications and applicability of the research findings; the contribution of the research findings to studies on the internationalization of banks; the limitations of the research; and suggestions for further research.

7.1 Review of the research philosophy, approach and methodology

Research philosophy

This research was underpinned by a positivist philosophy tending towards realism. In the positivist tradition, this thesis identified *a priori* theory from the literature and proposed independent variables influencing the phenomena (dependent variables) under study and developed propositions to be investigated. It sought to understand the many factors that influenced the under study (i.e. the motivations and entry mode choices of Nigerian banks in their foreign market entries) and noted contextual factors that have made the research outcome to some extent idiosyncratic.

The descriptive and explanatory nature of this research, which has taken into account the perception of participants and the researcher’s awareness and knowledge of contextual realities, takes the research towards the realms of realism which is founded on the notion that there is more than a single reality, depending on context. From the evidence gathered, the idiosyncratic nature of the research findings have revealed nuanced differences in the explanations of bank internationalization and entry mode choice in Nigeria and SSA compared with empirical studies of the same phenomena in other environments and contexts.

This has led to revisions to the propositions, reviewed below.

Research approach

The thesis sought an understanding of the factors that influenced the perceptions and decisions of participants in relation to the phenomenon under study –the international expansion of Nigerian banks. A mixed quantitative and qualitative research approach was used to address the research questions.

Quantitative research methods are borne out of the positivist ontology, i.e. reality is assumed to be objective and value-free, and attempts are made to maximise the objectivity, replicability, and generalizability of research findings. On the other hand a qualitative research approach was also used to get a contextual understanding of the phenomena under study. Qualitative research is said to be more suited to a detailed exploration of a topic of interest where the perceptions and judgements of participants are important, and in which information is collected by research through case studies, ethnographic work, interview etc (Harwell, 2011). This research walked a narrow course between these two approaches

The case study methodology

Employing both the qualitative and quantitative approaches, this thesis used a case study methodology to examine the phenomenon under study. Yin (2003, p13) defined the case study as

> "…an empirical inquiry that investigates a contemporary phenomenon within its real-life context".

Piekkari et al. (2009, p569) also defined it as,

> "… a research strategy that examines, through the use of a variety of data sources, a phenomenon in the naturalistic context, with the purpose of 'confronting' theory with the empirical world."

The aim of this research, and the cases presented, conformed to Yin's definition. The aim was to investigate a contemporary phenomenon in a real-life setting and the focus was on organisational and managerial issues that informed decisions by Nigerian banks on why and how they entered new markets (Saunders et al., 2009).

This case study approach was chosen because it was found that the number of Nigerian banks that entered foreign markets was too small for conventional hypothesis testing.

In order to improve the validity of the research, multiple case study designs were used so that findings may be replicated and shown to support, or be inconsistent with, theoretical generalisations. The research used five banks for the study, chosen purposively and supplemented by snowball sampling of interviewees.

7.2 Internationalization theories and foreign market entry by Nigerian banks

This research had three underlying internationalization theories as its framework. These were the eclectic theory, transaction cost theory and RBV.

(i) Eclectic theory and internationalization of Nigerian banks

The eclectic theory seeks to explain: why certain firms are in a position to take up investment opportunities abroad; where would production be located; and when is a firm likely to opt for direct production rather than other forms of international business such as exporting and licensing (Ietto-Gillies, 2007).

The theory emphasises the three sets of attributes that determine a firm's motive, location and ownership structure when expanding internationally. These attributes are ownership (O-) advantage, location specific (L-) advantage and (I) internalization advantages.

Indeed, this research has found that Nigerian banks were motivated to exploit their O-advantages in SSA countries. These O-advantages include the bank's size, capitalisation, reputation, brand name, management skills, credit appraisal know-how, and technology.

For most Nigerian banks, however, the most important "pull" factors or L-advantages possessed by host countries were,

(i) Ease of entry through regulations permitting entry for foreign banks,

(ii) High GDP growth rates, and

(iii) The profitability of their banking markets.

Additionally, it has been found that I-advantages exist for the banks because of environmental uncertainties created by macroeconomic instability, political risk and low levels of development of institutions and rule-based governance which occurs in the host countries. All these create high entry and transaction costs which prompts the banks to internalize their operations.

Thus, consistent with the eclectic theory framework, Nigerian banks preferred to internalize their operations in foreign markets using high equity FDI in the form of brownfield acquisitions or greenfield establishments.

By entering with high levels of resource commitment, Nigerian banks signalled that they needed to control most of the decisions of their subsidiaries to protect their propriety assets, including management know-how, reputation and brand name, as well mitigate against contractual risk between the banks and their customers.

(ii) TCA and the internationalization of Nigerian banks

The underlying message of TCA is that a firm's internationalization decisions are a function of transaction costs. The inclusion of all costs is considered when making a decision and not just market prices. These include the cost of negotiating, monitoring and enforcing a contract as well as the risk of opportunism and the limitations of bounded rationality as a result of incomplete information (Williamson, 1985).

TCA also recognised assets that are specific to transactions and advocates the protection of these assets. Banks compete on the basis of their tangible and intangible assets, which usually give them a competitive advantage in their domestic and foreign markets. These assets include information and management competence; processes and capabilities. Already studies have noted that banks do not usually enter foreign markets by licensing and other collaborative forms of entry because of the unique nature of these assets.

This thesis confirmed that Nigerian banks possessed tangible and intangible assets which they sought to exploit, and also protect, in most SSA markets. These assets included unique management processes and capabilities, risk appraisal know-how, reputation and technology.

Furthermore, TCA also recognises the role of environmental uncertainty in determining a firm's governance choice in a foreign market. Macroeconomic instability, high political risk, and low country governance quality create environmental uncertainty, and consideration is also taken of these factors when MNBs enter a foreign market (Slagen and van Tulder, 2009).

Some scholars are of the view that when environmental uncertainty is high, firms internalize their operations (Brouthers and Brouthers, 2004). Others predict that entry into host countries with high environmental uncertainty will be through low equity entry modes (Delios and Beamish, 1999).

Empirically, earlier studies on market entry by MNBs have shown that high levels of environmental uncertainty in host countries favour entry modes with low resource commitments, and conversely low country risk favours high equity entry modes (Buch, 2003; Outreville, 2007).

This study, however, found that high environmental uncertainty in most SSA countries did not deter entries by Nigerian banks. Rather uncertainty influenced entry with high equity commitment retail subsidiaries. It can be argued that high TCs occasioned by behavioural uncertainty and environmental uncertainty might have contributed to the decision by the banks to internalize their operations across SSA by establishing subsidiaries and assuming significant control in the case of brownfield acquisitions.

This thesis has found that the internationalization of Nigerian banks to follow the prediction that when absolute environmental uncertainty is high, firms internalize their operations (Brouthers and Brouthers, 2004). However, from the findings of this thesis and the findings of Claessens and van Horen (2008), it may be necessary to view measures of environmental uncertainty in *relative* rather than absolute terms.

This thesis found that comparative similarity between measures of environmental uncertainly in Nigeria and SAA countries gave Nigerian banks the confidence to enter these markets with high equity commitment modes. In other words, uncertainty may be measured by extending the “distance” metaphor (see final section on suggestions for further research).

(iii) The RBV and internationalization of Nigerian banks

The RBV emphasises the internal capabilities of the organisation in formulating a strategy to achieve and defend a sustainable competitive advantage in its market and industry. The theory explains how a firm harnesses its resources and internal capabilities to compete in its external environment and protect its capabilities.

These resources include physical, human and organizational assets possessed by the firm that can confer on it a competitive advantage. And because of the firm’s need to protect its unique capabilities, the default assumption of the RBV is that sole ownership is the preferred mode of entry until proven otherwise (Barney, 1991; Hamel, 1991).

Findings from this research show that Nigerian banks were motivated to embark on foreign market entry on the basis of their possession of resources and capabilities that gave them a competitive advantage in foreign markets in SSA. These resources include the bank’s capital, reputation, brand name, management skills, credit appraisal know-how, and technological assets.

RBV also points out that there must be a strategic fit between a foreign location and the firms’ resources before it can be exploited advantageously. The choice of SSA as the strategic location of most entries by Nigerian banks indicates that these resources found a strategic fit within these SSA countries as these countries share similar levels of physical and institutional development with Nigeria.

This research has also found that Nigerian banks preferred entering these markets with greenfield subsidiaries or by brownfield acquisitions that gave them control of the management of the banks and allowed them to exploit and protect their resources and capabilities in host countries. This is the preferred mode of entry of prescribed by the RBV.

Thus, this thesis has found that international market entry by Nigerian banks conformed to the RBV, which urges internalization when a bank possesses unique resources and capabilities.

(iv) Summary on theories

This thesis has found that Nigerian banks' possession of significant O-advantages, and many SSA countries possessed L-advantages that made them attractive to Nigerian banks. Furthermore, as anticipated by the eclectic theory, Nigerian banks chose to internalise their operations because of high environmental uncertainties in most host countries in SSA. Thus, the internationalization pattern of the banks conformed to the eclectic theory.

The banks also chose to internalize their operations in most SSA countries due to their possession of unique resources which includes capital, management competences, capabilities and know-how, brand name and reputation. This conforms to the dictates of the RBV.

On the other hand, this thesis found that increased transactions costs in many SSA countries, caused by high levels of environmental uncertainty, influenced the decision of Nigerian banks to enter these markets with high commitment entry modes. This finding lends support to those TCA researchers who dictate that firms enter environmentally uncertain countries with high equity commitment modes.

Thus, this thesis has shown that the pattern of internationalization of Nigerian banks has conformed to the eclectic theory, the RBV and the strand of the TCA that predicts that MNCs internalize their operations in host countries with high transaction costs. It is not possible to identify a single explanation of this internationalization, and it seems probable that each theoretical mechanism played a complementary role.

7.3 Suggested revisions to propositions

From the findings of the research, each of the propositions which formed the framework for the research, were examined using evidence gathered, and have been subsequently revised (details in section 6.3).

Proposition 1 stated that;

"A bank's motivation to expand internationally will be influenced by a need to follow its clients into foreign markets, seek growth and profit opportunities, exploit its O-advantages, and fulfil the strategic aspirations of its managers".

This was revised to state that:

"A bank's motivation to expand internationally will be influenced by a need to follow its clients into foreign markets, *seek profit opportunities in hosts banking markets*, and fulfil the strategic aspirations of its managers."

Proposition 2 stated that;

"A bank's motivation to expand internationally will be influenced by home country regulations and competitive pressure in the domestic banking market".

This was also revised to state that:

"A bank's motivation to expand internationally will be influenced by home country regulations and competitive pressure in the domestic banking market, *unless the banks are from home countries with low levels of financial development*".

.**Proposition 3** stated that;

"A bank's choice of mode of entry into foreign market will be influenced by the host country's regulations and market attractiveness".

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After reviewing the evidence, Proposition 3 was revised to state that:

"*If a host country's banking market is highly profitable and a foreign bank possesses significant O-advantages*, its choice of mode of entry will be influenced by the host country's regulations, but may not be affected by diminished market attractiveness due to high transaction costs".

Proposition 4 stated that:

> "A bank's choice of mode of entry into a foreign market will be influenced by the level of environmental uncertainty in the host country."

With the evidence gathered, this proposition was found to be only partially supported and was revised to state:

> "A bank's choice of mode of entry into a foreign market will be influenced by the level of environmental uncertainty in the host country*, unless the foreign banks possess significant O-advantages and are from countries that share similar levels of environmental uncertainty with the host country*

These revisions became necessary as the evidence gathered from primary and secondary sources sometime showed inconsistencies with the Propositions. These inconsistencies may have been due to differences in the different contexts within which previous research was conducted and on whose findings most internationalization theories was based.

The most notable of these modified Propositions are Propositions 3 and 4. This is so because the findings of previous research, which showed a clear link between high transaction costs and high environmental uncertainty in host countries and low commitment entry mode choices by banks were inconsistent with the findings of this research.

High economic growth rates and profitability of host country banking markets, possession of significant resources and O-advantages by the banks and similarity in measures of environmental uncertainty between Nigeria and host countries encouraged Nigerian banks to enter SSA countries with high commitment equity modes despite the high transaction costs and environmental uncertainties in these countries.

7.4 The implications and applicability of the research findings

Major findings of this research include,

(i) Successful reforms and international expansion by Nigerian banks

This research has shown strong relationships between bank motivations for internationalization, foreign entry modes and factors that are under the control of governments. This is hardly surprising, with banking being such a crucial sector to the welfare of all industries, individuals and even the government itself. The CBN-initiated consolidation of the Nigerian banking market in 2005 was successful in the context of internationalization and led to an increase in the capital and assets of banks.

The significant effect of this increased capital was a quest by the managements of several Nigerian banks to see that their banks become dominant financial service providers in Africa. This change in the strategic scope of these banks led to their scramble to enter SSA markets.

Thus, banking sector reforms in 2005 can be said to have been the catalyst for foreign market entries by Nigerian banks.

At the same time, governments were active in host countries to attract FDI and influence the entry modes of foreign banks. Whilst the inward FDI of foreign banks was an attractive prospect for host countries, they were also anxious to regulate them, and this led to a preference for the subsidiary entry mode that was matched on the banking side by a wish to maintain control of high environmental uncertainties through high-commitment modes like subsidiaries.

The implication of these findings is an unusual one in a world economy that often seems beyond the control of governments exposed to market forces. In banking, SSA countries have been able to influence strongly both inward and outward foreign banking investments.

It would appear that regulations can be effective when governments are motivated to regulate and focus on an industry.

(ii) O-advantages can be exploited in less developed but profitable markets

This research has also shown that banks possessing significant amounts of tangible and intangible assets can operate profitably in host markets that have high transaction costs due to cultural, geographic distance and low levels of institutional development. This is amplified if those markets possess significant opportunities for profit.

This research also found that Nigerian banks perceived SSA markets, with their poorly developed but profitable banking markets, to be strategically compatible locations for the exploitation of their O-advantages, because the levels of development of infrastructure and institutions in the bank's home and host countries were similar.

This study found that the O-advantages possessed by the banks and the high profitability of SSA banking markets were "very important" in influencing foreign market entries by Nigerian banks as well as prompting their entry into SSA countries with high equity commitment subsidiaries.

Besides banking, studies in other sectors have also shown that some multinational companies from SSA countries like South Africa and Nigeria prefer high equity entry modes when entering other SSA markets.

Thus, this research has found that, despite high entry and transaction costs, firms can enter markets that are less developed than their home markets, but which possess high profitability metrics, with high equity entry modes.

(iii) Nigerian banks internalize and use high equity modes in markets with high transaction costs.

This research has found that when transaction costs are high, mainly due to the low level of development of institutions in a host country, the internalization of operations through WOSs might be a preferred form of entry

Evidence shows that Nigerian banks entered markets that were culturally and geographically distant from Nigeria with high equity entry retail subsidiaries. For other MNCs seeking to enter SSA markets, a strategy of local imitation may help mitigate transaction costs.

Despite studies indicating banks' cautious (low commitment) entries into markets with poor institutional frameworks, researchers have argued that the success with which a bank incorporates a host country's characteristics into its business model determines its comparative advantage *vis-à-vis* other internationally active banks (CGFS, 2010).

This thesis found that Nigerian banks adopted a strategy of extensive branching to mobilise "soft" information on borrowers, and mitigate the risk posed by a lack of credit bureau agencies and borrower information as well as institutions that protect creditors legal and property rights. This relationship banking improves the chances for Nigerian banks to give credit more efficiently to customers that are both capable and willing to pay. This also mitigates the risk of litigation from bad loans and failed contracts.

The unique nature of banking and financial services might be responsible for banks seeking to internalize their operations in host countries but there is a lesson to be learnt, as this research has shown that internalization is also preferred in host countries with high environmental uncertainty but also huge profit opportunities, and if the firm possesses significant O-advantages, including management capabilities and know-how.

This research supports the stream of empirical studies that predicts that firms should internalize when transaction costs are high. This research has shown that it might be best to enter SSA with high-control entry modes. Full control modes of entry reduce contractual risks with partners, especially where legal and property rights are low.

7.5 Contributions of the research

(i) Contributions to research on internationalization of banks

Studies on international market entries by MNBs have noted the influence of transaction costs and environmental uncertainty on the entry mode choices of MNBs. Cultural and geographic proximity, macroeconomic stability, political risk, levels of development of institutions and rule-based governance have all been found to influence the entry mode choices of banks into a particular market. Many studies noted that when transaction costs and environmental uncertainties in host countries are high, MNBs chose low equity commitment forms of entry.

However, this research has found the opposite effect in the international entries of Nigerian banks. Evidence shows that Nigerian banks entered markets exhibiting macroeconomic instability, high political risk, low levels of development of institutions and low levels of rule-based governance with high-commitment entry modes.

Evidence also shows that the most important consideration for the banks seems to have been the high profitability, and the level of development of the host country banking markets. The banks were further encouraged to enter these markets because of their possession of tangible and intangible assets that helped them to compete with domestic banks. Additionally regulations in host countries that eased entry for foreign banks also acted as “pull factors” for the banks.

In other words, it has been shown that environmental uncertainty in SSA was important in prompting Nigerian banks to enter SSA markets with high-commitment modes. This is contrary to the findings of other studies on the entry mode strategies of banks.

(ii) Contribution to the study of context in international business studies.

This research has offered a contribution to the issue of context in international business studies, as the phenomenon of international expansion by banks has been focused on banks from a SSA country. Most previous studies have been done from the perspective of developed countries.

This research has essentially developed an explorative explanation of the phenomena of internationalization of banks from the context of banks from Nigeria that are expanding into SSA countries. The research emphasised the various national, cultural and institutional context of SSA countries that may have influenced the findings. For these reasons, this research is highly contextual and the findings are largely idiosyncratic but it should be noted that the research has sought high levels of validity and reliability through the positivist case study approach.

Indeed this research found that the internationalization pattern of Nigerian banks into SSA, though conforming to the theories of internationalisation to a large degree, has been different in some measure from those in other regions and countries. This can be attributable to the various factors that are part of the reality and context of SSA.

7.6 Limitations of this research

This research has limitations that might have affected its validity. This research relied on a small sample of research participants (four top management staff for each of the five banks) for the acquisition of primary data. Additionally, the fact that the sampling was purposive might affect the generalizability of the results.

(i) Explorative research

This research is mainly an explorative study. The concept of the MNCs from SSA is still new and there is little research regarding testing the fit between the phenomenon of internationalization and the theories of international business. This thesis is a step forward in this respect.

(ii) Generalizability of the research

This research relied on a relatively small sample of banks and respondents, in Nigeria and some SSA countries, picked through non-parametric sampling methods. Despite all the methodological measures taken to increase the validity and reliability of the research, it is feared that the generalizability of the findings may be limited to, say, other SSA countries.

(iii) Research philosophy

Though this research has sought reliability and validity through its positivist philosophy, the realist leaning of the thesis has meant the recognition of the perceptions of individual respondents, as well the local context in which the research was conducted. This, however, implies multiple realities and the inapplicability of highly generalised, deductive theories. Thus, it may be unrealistic to expect the same theories and propositions to apply to SSA and non-developed countries.

(iv) Methodology.

In using the positivist case study approach this thesis applied the standard recommendations that improve rigour and reliability. Furthermore, statistical methods were used to rescale ordinal level qualitative data into quantitative data.

Nevertheless, some scholars might have preferred a purely quantitative approach with the design of an econometric model or large survey population on which to test hypotheses. This was simply infeasible with Nigeria's banking industry.

7.7 Suggestions for further studies

There is still a large gap in researching MNCs' internationalization in SSA and indeed all over Africa. High GDP growth rates in most African countries have led to an influx of MNCs from developed and emerging markets into Africa e.g. China, India, Turkey and Brazil. There is an opportunity and need to study the factors that influence the entry mode choices of these emerging market MNCs into Africa.

Additionally, there are now a number of companies in Africa that can be called "African multinationals" e.g. from South Africa, Nigeria and Eygpt. These include: the South African telecommunications firm MTN and the retailer Shoprite; the Nigerian cement manufacturer, Dangote Industries; and the Egyptian conglomerate, Orascom. These firms have made significant market entries into many countries in SSA and the Middle East. Factors that influence the entry mode of choices of these African MNCs may be further studied.

Regarding banking, many empirical studies of banking markets in SSA have been presented by the IMF, World Bank and the African Development Bank, mainly in their Working Paper series. These studies have focused on bank performance, efficiency and the competitiveness of banking markets. However, research on entry mode choice is limited or nonexistent. A study incorporating a large sample of SSA multinational banks could facilitate the design of econometric models to test hypotheses on the entry mode choices of these banks and how they are influenced by measures of market attractiveness and environmental uncertainty.

There is also a need to further study the effects of foreign market entries by Nigerian banks on the subsequent performance of these banks in the Nigeria and in host countries.

While this research has focused on the banking sector, many other sectors, including mining, oil and gas, health care, retailing and telecommunication are proving attractive to many MNCs in SSA. Each sector seems to exhibit different entry strategies meriting further investigation.

Finally, the suggested revision to Proposition 4 may have relevance for future internationalization studies in general, with its implication that environmental uncertainty *relative to other countries* may be an important influence. The relative notions of "cultural distance" and "psychic distance" (Shenkar, 2001) has already been reviewed in Chapter 2 above. In addition, the IB literature has gradually yielded relative concepts such as "institutional distance" (Xu and Shenkar, 2002). In addition the time may have come to develop a new concept and measure, "uncertainty distance" between pairs of countries.

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